Province of Prince Edward Island

Budget Address 2007

People, Place and Promise

Today's Leadership; Tomorrow's Prosperity

Presented by
The Honourable Mitch Murphy

Provincial Treasurer
and
Chair of Treasury Board

Province of Prince Edward Island

Budget Highlights 2007

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Prince Edward Island

Budget Highlights 2007-2008

People, Place and Promise
Today's Leadership; Tomorrow's Prosperity

Overview

Priority Areas

- Fiscal Responsibility
- Health
- Social Services and Seniors
- Education
- Community and Resource Development

"We continue to show leadership in programming initiatives and fiscal responsibility. This Budget contains $34 million in tax savings and $54 million in new spending."

Hon. Mitch Murphy
Provincial Treasurer

Budget Summary

	2007-2008 Estimate ($ millions)	2006-2007 Forecast ($ millions)	2006-2007 Estimate ($ millions)
Revenue:			
Provincial Own Sources	724.3	705.0	687.7
Federal Sources	525.3	466.0	458.7
Sinking Fund Earnings	19.0	17.0	17.3
Net Consolidated Surplus of Crown Corporations	17.5	2.5	1.9
Total Revenue	**1,286.1**	**1,190.5**	**1,165.6**
Expenditure:			
Program Expenditures	1,124.1	1036.1	1022.1
Interest Charges on Debt	121.2	116.1	118.3
Operating Expenditure	1,245.3	1,152.2	1,140.4
Depreciation Expense	38.7	37.0	37.7
Total Expenditure	**1,284.0**	**1,189.2**	**1,178.1**
Consolidated Surplus (Deficit)	2.1	1.3	(12.5)

Forecast 2006-2007

The Province is forecasting a consolidated surplus of $1.3 million as compared to its original Budget Estimate of a $12.5 million deficit.

Total Revenue is up $24.9 million, which results primarily from an increase in Provincial Own Source Revenues.

Total Expenditure is up $11.1 million, which represents less than a one percent increase over the original 2006-2007 budgeted expenditures.

Estimates 2007-2008

The Budget Estimates for 2007-2008 project a consolidated surplus of $2.1 million. This represents the third consecutive surplus year for Prince Edward Island.

Total Revenue for 2007-2008 is projected to increase by $95.6 million from the forecasted 2006-2007 Revenue. Provincial Own Source Revenues are up by $19.3 million, Federal Source Revenues are up $59.3 million, Sinking Fund Earnings are up $2 million, while Net Consolidated Surplus of Crown Corporations is up $15 million.

Total Expenditure for 2007-2008 is projected to be $94.8 million more than recorded in the 2006-2007 Budget Forecast.

Tax Measures

In total, the income tax reductions contained in this Budget amount to more than $34 million in savings for Island taxpayers and Island businesses over this year and next.

Islanders will also benefit from $9.5 million of Federal income tax savings this year, as announced in the Federal Budget.

Personal Income Tax Measures

Thresholds of the Basic Personal Amount, Spousal Amount, Age Amount and Personal Income Tax Brackets will all increase by 2% over current levels in 2007 and by 4% in 2008.

The High Income Surtax Amount will be increased so that middle-income families no longer pay the surtax.

A typical married couple making approximately $35,000 each, will now save $160 in income tax annually.

A typical single individual making approximately $15,000 will see their income tax payable reduced by 7% annually.

In 2008, a typical single earner family of four making $40,000, will pay 20 % less Provincial Income Tax than in 1997.

Beginning in 2007, Pension Income Splitting will save Island seniors more than $6.5 million per year.

A senior couple with one pension of approximately $45,000, will see their total income tax payable reduced by more than 50% annually.

The value of the personal income tax education amounts will double, both for full-time and part-time students. This will save Islanders $1.5 million a year.

Business Income Tax Measures

On April 1st, 2007, the Small Business Income Tax Rate was lowered from 5.4% to 4.3%. This rate is being reduced each year until 2010, when it will be only 1%, the lowest of any Canadian province.

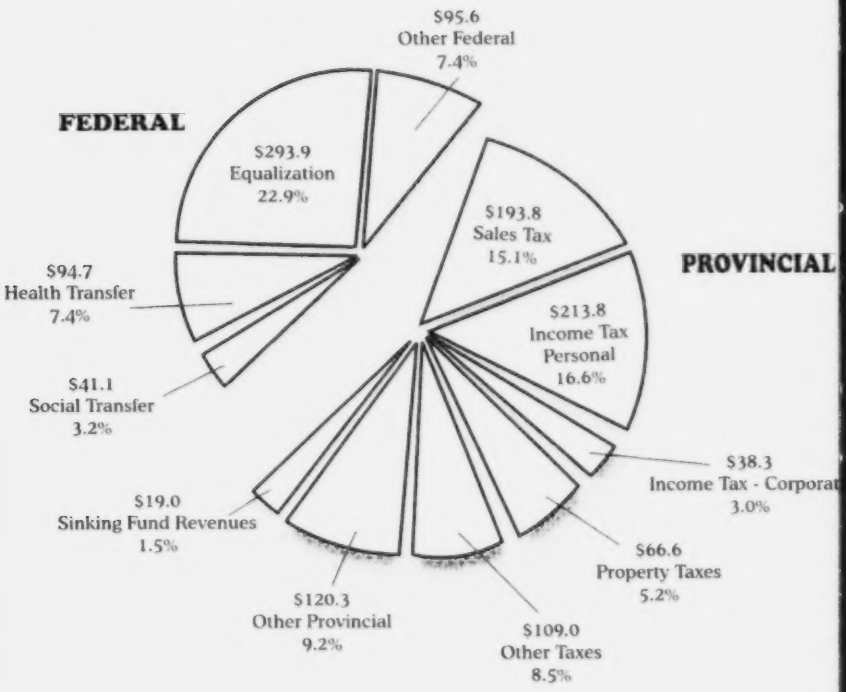
The Small Business Income Tax threshold has increased from $300,000 to $400,000 effective for 2007, and combined with the rate reduction, small businesses will save more than $2.2 million this year alone.

The Province will increase the Lifetime Capital Gains Exemption for fishermen, farmers and small business owners from $500,000 to $750,000.

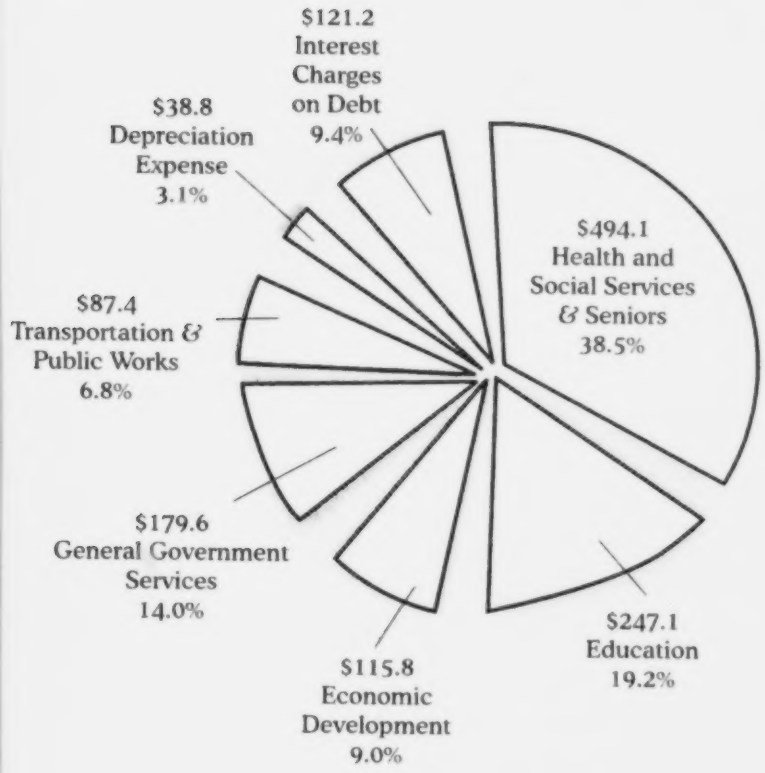
Gasoline Tax Measure

The variable portion of the tax on gasoline and diesel will be capped at 8.7 cents per litre.

2007-2008 Revenues
Where the Money Comes From
($ millions)



2007-2008 Expenditures
Where the Money Goes
($ millions)



Highlights

- In the last 10 years, the number of practicing physicians has increased from 146 to 192.
- Additional physicians will be added at a cost of $1.8 million, including $220,000 for additional coverage at the Prince County Hospital Emergency Department.
- Long-term care funding initiatives will save seniors $6.6 million in the next year.
- Strategic investments costing an additional $1.3 million will improve access to health care.
- A further $150,000 for the Methadone Maintenance Treatment Program.
- Enhanced delivery of pharmacy services in hospitals costing $735,000.
- Additional funding of $445,000 for the Neonatal Intensive Care Unit at the Queen Elizabeth Hospital.
- Increase of $200,000 to funding for Speech and Language Development services.
- An additional $200,000 to develop a best-practice model to assist seniors to stay at home.
- A Quality Improvement Program for diagnostic imaging services at a cost of $104,000.
- Budgeted $1,000,000 for a new youth addictions facility and to develop a comprehensive youth addictions strategy.

Highlights

- New cancer drugs costing $1 million in addition to $2.2 million in increased funding for drugs.
- New investments in early learning and child care of $1.7 million to support child care centers and parent subsidization.
- Increased funding of $590,000 for community-based volunteer organizations.
- Increases in shelter rates for social assistance clients costing over $527,000.
- Foster families will receive increases costing $149,000.
- An increase of 11% to the budget of the Disability Support Program.
- The Seniors' Secretariat will receive an additional $150,000 to develop a Seniors' Handbook and to enhance programs.
- An increase in the income threshold for the Family Health Benefit drug program, which will cost $90,000.
- Extensive repair and renovation work to refresh social housing, including most of the 1,149 Seniors Units.

Highlights

- Will increase funding to improve student achievement from $1 million to $3 million. Initiatives will include improved literacy, curriculum, equipment and other resources.
- Will provide new funding of $2.1 million to U.P.E.I. to decrease undergraduate tuition fees by 10%.
- Will increase funding to U.P.E.I. by $1.4 million and to Holland College by $1 million to fund increased cost of operations.
- Will maintain the Staffing and Funding Model for teachers by adding six new teaching positions and maintaining 30 more at a cost of $2 million.
- Will provide an additional $367,000 to School Boards to fund increased operating costs. A further $570,000 is directed toward establishing a new welding program at Three Oaks Senior High School.
- Will provide new funding toward increasing the student awards for students at Holland College, U.P.E.I. and La Société éducative de l'Île -du-Prince-Édouard. A further $470,000 will be added to the Student Financial Assistance Program.
- Will add $500,000 to improve services for students with special needs and $220,000 to Kindergarten funding.
- Will provide additional funding to improve literacy.

Highlights

- $212,400 of additional funding toward the RCMP "L" Division to augment its street-level drug program and to provide greater concentration on impaired driving.
- Additional funding for staffing of the Maintenance Enforcement Program to ensure families and children continue to get quality service.
- $15 million in new Federal funding for clean air and climate change projects, including $150,000 for a "greening of Government" initiative.
- Additional funding of $500,000 toward organic marketing development.
- $130,000 for PEI music industry to assist Island musicians with the production and promotion of their music.
- Contributions to the economic and sports development of Island communities through an annual $100,000 Sport Hosting Grant.
- Investing $600,000 in a Workplace Training Program that will allow businesses to train new and existing employees on the work site.

Highlights (continued)

- Increase in funding for the Science and Innovation Fund, which assists Island companies with new ideas to bring them to commercialization.
- Support for the Legends of Golf 2007, featuring Vijay Singh and Mike Weir at The Links at Crowbush Cove in July.
- Support for a major concert event this summer featuring Aerosmith.
- A tourism marketing campaign for Calgary.
- A commitment of $150,000 to deal with aquatic invasive species.
- Increase of $800,000 to Tourism's promotion and marketing budget.
- Increased funding of municipal equalization by $300,000.
- Will increase infrastructure program funding by $9.5 million over last year's budget.

Five-Year Capital Plan

Province of Prince Edward Island
Five-Year Capital Plan
2007/2008 to 2011/2012

	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	Total
	$	$	$	$	$	$
Agriculture, Fisheries & Aquaculture						
GPS Survey Stations	75,000	75,000	-	-	-	150,000
Fisheries and Aquaculture Lab	75,000	-	-	-	-	75,000
	150,000	**75,000**	-	-	-	**225,000**
Community and Cultural Affairs						
Capital Improvements - Museums	115,000	80,000	-	-	-	195,000
9-1-1 System Upgrades	-	50,000	75,000	75,000	-	200,000
	115,000	**130,000**	**75,000**	**75,000**	-	**395,000**
Tourism PEI						
Confederation Trail	355,000	355,000	355,000	355,000	-	1,420,000
Green Park	132,500	-	-	-	-	132,500
Northumberland	190,000	-	-	-	-	190,000
Linkletter	220,000	-	-	-	-	220,000
Brookvale	30,000	70,000	28,500	27,500	-	156,000
Maintenance Equipment	110,000	111,200	111,300	111,200	111,300	555,000
West Maintenance Building	-	65,000	-	-	-	65,000
Kings Castle	-	50,000	45,000	-	-	95,000
Cabot Beach	-	100,000	75,000	-	-	175,000
Red Point	-	100,000	30,000	-	-	130,000
Jacques Cartier	-	135,000	75,000	100,000	-	310,000
Cedar Dunes	-	100,000	0	0	-	100,000
Mill River Fun Park	-	40,000	25,000	20,000	-	85,000
Panmure Island	-	-	50,000	27,500	-	77,500
Playground Equipment	-	-	20,000	20,000	-	40,000
Brudenell	-	-	100,000	50,000	10,000	160,000
Buffaloland	-	-	50,000	35,000	20,000	105,000
Mill River Trails	-	-	-	55,000	-	55,000
Day Parks	-	-	-	40,000	45,000	85,000
Lord Selkirk	-	-	-	15,000	40,000	55,000
	1,037,500	**1,126,200**	**964,800**	**856,200**	**226,300**	**4,211,000**
Education						
Parkside Elementary	1,078,500	-	-	-	-	1,078,500
Tracadie Cross Consolidated	1,430,000	-	-	-	-	1,430,000
Montague High School	7,182,500	7,057,500	60,000	-	-	14,300,000
Elm Street Elementary	100,000	2,400,000	-	-	-	2,500,000
Rustico French School	-	75,000	1,425,000	-	-	1,500,000
Trades Capital	250,000	250,000	250,000	250,000	-	1,000,000
School Improvements	1,000,000	1,000,000	1,000,000	1,000,000	1,100,000	5,100,000
Bus Replacement	1,525,400	1,627,100	1,879,300	2,152,700	2,260,300	9,444,800
Canada Games Renovations	267,200	65,000	-	-	-	332,200
Parkside Sports Field	218,000	-	-	-	-	218,000
	13,051,600	**12,474,600**	**4,614,300**	**3,402,700**	**3,360,300**	**36,903,500**

December 2006

Five-Year Capital Plan

Province of Prince Edward Island
Five-Year Capital Plan
2007/2008 to 2011/2012

	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	Total
	$	$	$	$	$	$
Office of the Attorney General						
Courthouse Security/Records	75,000	-	-	-	-	75,000
Correctional Centre Renovations	100,000	-	-	-	-	100,000
Fleet Replacement	-	50,000	50,000	50,000	50,000	200,000
	175,000	**50,000**	**50,000**	**50,000**	**50,000**	**375,000**
Health						
Queen Elizabeth Hospital Redevelopment	2,900,000	8,300,000	9,500,000	2,500,000	9,300,000	32,500,000
Queen Elizabeth Hospital Improvements	955,000	400,000	400,000	400,000	400,000	2,555,000
West Prince Hospital	760,000	11,500,000	11,500,000	-	-	23,760,000
Health Facilities Improvements	1,000,000	1,000,000	500,000	500,000	250,000	3,250,000
Clinical Information System	2,660,000	-	-	-	-	2,660,000
Hospital Drug Packager	300,000	-	-	-	-	300,000
Manor Replacement	4,025,000	4,266,000	4,522,000	4,793,000	5,081,000	22,687,000
Primary Care Facilities	233,000	200,000	200,000	200,000	200,000	1,033,000
	12,833,000	**25,666,000**	**26,622,000**	**8,393,000**	**15,231,000**	**88,745,000**
Social Services and Seniors						
Capital Improvements	**667,000**	**667,000**	**667,000**	**667,000**	**667,000**	**3,335,000**
Provincial Treasury						
Information Technology Optimization	2,455,000	500,000	-	-	-	2,955,000
Server Refresh	300,000	300,000	300,000	300,000	300,000	1,500,000
	2,755,000	**800,000**	**300,000**	**300,000**	**300,000**	**4,455,000**
Environment, Energy and Forestry						
Maintenance of Ponds and Impoundments	130,000	85,000	70,000	130,000	200,000	615,000
Laboratory Equipment Refurbishment	430,000	95,500	12,000	174,000	-	711,500
Land Purchases	65,000	65,000	65,000	65,000	65,000	325,000
Forest Fire Vehicle Replacement	-	250,000	170,000	85,000	170,000	675,000
Replacement of Small Vessels	100,000	-	-	-	-	100,000
	725,000	**495,500**	**317,000**	**454,000**	**435,000**	**2,426,500**

December 2006

Five-Year Capital Plan

Province of Prince Edward Island
Five-Year Capital Plan
2007/2008 to 2011/2012

	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	Total
	$	$	$	$	$	$
Transportation and Public Works						
Bridges	8,780,000	10,780,000	13,789,800	14,259,200	14,370,000	61,979,000
Highway Reconstruction	10,460,000	12,029,000	16,850,200	19,360,800	20,250,000	78,950,000
Highway Equipment	1,000,000	1,800,000	1,800,000	1,800,000	1,800,000	8,200,000
Cost Shared Highways	9,380,000	8,811,000	1,980,000	-	-	20,171,000
Prince County Hospital Demolition	10,000	-	-	-	-	10,000
Basin Head Wharf Reconstruction	50,000	-	-	-	-	50,000
Provincial Lands	250,000	250,000	250,000	250,000	250,000	1,250,000
Prince County Highway Depot	20,000	-	-	-	-	20,000
Capital Repairs Buildings	500,000	500,000	500,000	500,000	500,000	2,500,000
Laboratory Services	4,186,000	-	-	-	-	4,186,000
Major Repairs to Shaw/Sullivan Bldgs	1,800,000	-	-	-	-	1,800,000
Salt Storage Building	200,000	-	-	-	-	200,000
	36,636,000	34,170,000	35,170,000	36,170,000	37,170,000	179,316,000
Public Service Commission						
HRMS/Payroll Upgrade	714,400	79,600	-	-	-	794,000
Total Capital Expenditure	68,859,500	75,733,900	68,780,100	50,367,900	57,439,600	321,181,000
Total Capital Revenue	9,881,200	6,655,300	1,042,000	250,000	250,000	18,078,500

December 2006

Summary Statistics

	2005	2006
Population on 1 July (thousands)*	138.2	138.5
Personal Income per capita* ($)	26,065	26,697[1]
As % of Canadian personal income	81.9	80.1[1]
Employment (thousands)*	68.2	68.6
Unemployment Rate - P.E.I. (%)	10.8	11.0
Unemployment Rate - Canada (%)	*6.8*	*6.3*
CPI - Annual Change P.E.I. (%)	3.2	2.2
CPI - Annual Change Canada (%)	*2.2*	*2.0*
Retail Trade ($ millions)*	1,428.6	1,486.3
New Motor Vehicle Sales (units)	4,847	4,933
Farm Cash Receipts ($ millions)*	370.3	380.1
Potato Receipts ($ millions)*	166	201.8
Lobster Landings ($ millions)*	103.2	113.4
*Lobster Landings (lbs - millions)**	*18.5*	*21.5*
Housing Starts (units)	862	738
Investment ($ millions)	758.8	788
Manufacturing Shipments ($ millions)*	1,289.6	1,351.0
International Exports of Goods ($ millions)*	772.8	786.0
GDP at Market Prices ($ millions)*	4,169	4,320[1]

* Revised Data

[1] Provincial Treasury estimate

Sources: Statistics Canada; Canada Mortgage and Housing Corporation; and PEI Department of Agriculture, Fisheries, and Aquaculture.

2008-01276/

Prince Edward Island

2007 Budget

People, Place and Promise

Today's Leadership; Tomorrow's Prosperity

Presented to
The Members of the Legislative Assembly of Prince Edward Island

by

Honourable Mitch Murphy

Provincial Treasurer
and
Chair of Treasury Board

April 10, 2007

The full texts of the Budget Address, Estimates of Revenue and Expenditure and supporting schedules for 2007-2008 and previous years are available on the Province of Prince Edward Island's website:

http://www.gov.pe.ca/budget

PRINCE EDWARD ISLAND
2007 BUDGET

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THE BUDGET ADDRESS

People, Place and Promise
Today's Leadership; Tomorrow's Prosperity

Mr. Speaker, Members of the Legislative Assembly.

It is an honour for me to stand before you today to deliver the Budget Address for 2007-2008.

Our objective, as always, is to find the balance between improving the level of service delivered for Islanders while, at the same time, continuing our ongoing commitment to live within our financial targets.

This Budget will include new, strategic investments that will continue to make our Province stronger for the future. This Budget will provide the leadership today to ensure a prosperous tomorrow.

Mr. Speaker, today's Budget will include $54 million in new spending initiatives and programming, while at the same time result in a surplus of $2.1 million. This Budget also includes spending that was announced earlier this year, including a long-term care funding strategy which is saving Islanders in nursing homes more than $6.6 million each year.

" ...today's Budget will include $54 million in new spending initiatives and programming, while at the same time result in a surplus of $2.1 million."

Mr. Speaker, this Budget will include no new taxes. In fact, we will continue with the plan we have set in previous Budgets by reducing taxes for Islanders.

Mr. Speaker, as our economy continues to expand due in large part to our record job growth, we have seen the number of

working Islanders grow from under 57,000 in 1996 to over 70,000 today. Our Government has made it a priority to share that unprecedented growth with Islanders. Today we will reduce personal income taxes.

Mr. Speaker, I am also pleased to announce we will introduce a cap on the provincial tax rate charged for gasoline and diesel fuel.

" ...we will introduce a cap on the provincial tax rate charged for gasoline and diesel fuel."

Islanders have come to expect our Government to live within its means. During our pre-budget consultations, we were instructed to deliver needed programs in a fiscally prudent way. We have once again listened to Islanders.

We will deliver new programs, introduce tax-cutting measures and we will deliver a surplus for the third consecutive year.

"....we will deliver a surplus for the third consecutive year."

Mr. Speaker, our Government understands that continued improvement in education is the most important investment we can make. We will continue to show leadership by investing today in the quality education Islanders will need tomorrow. Our Government has been doing this consistently and our results have been demonstrated.

In this Budget, we will introduce a 10% tuition rollback for the upcoming academic year for undergraduate students at the University of Prince Edward Island. Further, we will work with the University to cap future tuition increases at 2% annually.
In this Budget, we will increase the Island Student Award for UPEI students to $2,000.

" ...we will introduce a 10% tuition rollback for the upcoming academic year for undergraduate students at the University of Prince Edward Island."

In this Budget, we will introduce a new $1,000 Island Skills Award for those Holland College and La Société éducative students not currently receiving federal skills development benefits.

Mr. Speaker, today's students are tomorrow's leaders. We know a post-secondary education must be accessible and affordable.

Our Government is taking the necessary steps to ensure Island students have every opportunity to succeed. I will discuss education in greater detail later in my address.

The health of Islanders has long been the number one priority of our Government. In this Budget, we will announce several initiatives to address the changing needs of health care in Prince Edward Island.

"The health of Islanders has long been the number one priority of our Government."

In this Budget, we will invest $1 million to add new cancer drugs to the Provincial Formulary. We will invest more money to recruit and retain doctors. We will invest more money in the areas of foster care, disability support and dialysis.

"We will invest more money to recruit and retain doctors."

In this Budget, we will include new funding for a youth addictions facility.

Mr. Speaker, our budget success can be attributed to a strong economy, new job creation and strong fiscal management. The provincial economy continues to perform well, benefitting from strong commercial construction, continued strength in fish processing, solid retail sales growth and positive employment gains. Our unemployment rate is at its lowest level in almost 30 years and our economic indicators continue to show improvement.

The theme of our Budget "Today's Leadership; Tomorrow's Prosperity" continues on our commitment to People, Place and Promise. It reflects the leadership of our Premier and our Government in making decisions that will pave the way for a strong future. Islanders know it is important to build on our past successes and chart a course for the future that continues to move Prince Edward Island forward. Islanders have made it known they want our Province to continue to achieve and Islanders should settle for nothing less.

"...reflects the leadership of our Premier and our Government in making decisions that will pave the way for a strong future."

In this Budget, our Government will continue to address the areas of highest priority for Islanders - health and education.

The Capital Budget

Last December, I tabled Government's second Capital Budget. This included our Five-Year Capital Plan and will see $321.2 million spent on critical infrastructure in our Province. For 2007-2008, we introduced $68.8 million in capital spending.

"For 2007-2008, we introduced $68.8 million in capital spending."

Initiatives in health totalled $12 million, including $2.9 million toward a $52 million redevelopment at Queen Elizabeth Hospital, $4 million for manor replacement, and $760,000 for design and preparation work for a new, single hospital for West Prince.

In education, we announced continued school construction for Parkside Elementary, a new gymnasium for Tracadie Cross Consolidated School and $14.8 million for Montague Regional High School. We also continued our school bus replacement program by investing $1.5 million toward 21 new buses.

Mr. Speaker, the largest portion of the Capital Budget is reserved for the Department of Transportation and Public Works. With $36 million for 2007-2008, the Department will continue to concentrate on Route 2, our Province's vital economic link. The Department's bridge replacement strategy continues to be implemented as $8.7 million was targeted toward the end goal of the replacement and renovation of our Province's 1,200 bridge structures.

The Economy

Mr. Speaker, the economy of Prince Edward Island performed well in 2006.

"...the economy of Prince Edward Island performed well in 2006."

The provincial economy expanded by 2.0%. There has been consistent growth for the past three years. Our continued growth is supported by strong employment growth, strong commercial construction, solid retail sales growth and growing personal incomes.

The employment situation in Prince Edward Island continued to improve as we welcomed more new companies to our Province. The past year has seen unprecedented growth in job opportunities for Islanders, in our targeted, emerging sectors. AIM Trimark will create 300 new jobs in the financial services sector. Ceridian Canada will create 100 jobs in human resources. CGI now employs 150 people at their Stratford facility, in information technology and software development.

"The past year has seen unprecedented growth in job opportunities for Islanders..."

Many of these companies have chosen Prince Edward Island for our dedicated and talented labour force and because of our Progressive Tax Rebate Programs which reward new and existing companies for their successes in creating and sustaining jobs in the Province.

Mr. Speaker, our emerging bioscience sector continues to mature and grow. With 25 companies, 700 employees and an annual payroll approaching $35 million, key research and development opportunities are helping to move our Province forward. This past year, we implemented the Bioscience Tax Rebate Program to continue to encourage growth in this sector and to help companies capitalize on commercialization opportunities which will emerge from this cutting-edge research.

"....our emerging bioscience sector continues to mature and grow. "

The history of this industry in Prince Edward Island has humble beginnings. Pioneers like Dr. Regis Duffy began in his garage, only to grow Diagnostic Chemicals and BioVectra Ltd. to become important international players in the bioscience sector.

The health of our economy and the strength of our job growth have helped our personal incomes grow by 2.6 % in 2006.

Labour income growth was supported by employment gains and higher earnings. Farm cash receipts in 2006 were valued at $380 million, an all-time high, though the agriculture sector experienced mixed market conditions throughout the year. Lobster landings in 2006 were valued at $113 million, an all- time high. The value of manufacturing shipments was $1.3 billion, an increase of $61 million over 2005. Growth in exports was driven largely by robust gains in fish processing which expanded by almost 35%.

"Growth in exports was driven largely by robust gains in fish processing which expanded by almost 35%."

Looking forward, Mr. Speaker, we estimate continued economic expansion for Prince Edward Island. We forecast the Island economy will grow at a consistent pace in spite of economic challenges, such as the strength of the Canadian dollar, a weakened US economy and rising energy prices. Strong growth prospects for service-sector employment, consumer spending, machinery and equipment investment and manufacturing will support our economic pace.

Equalization

Equalization transfers continue to be a major source of revenue for Prince Edward Island. You will note in this Budget, we have provided for $293.9 million in 2007-2008. This is an increase of over $7 million from the previous Budget. For 2008-2009, we estimate $310 million in Equalization revenue. These amounts are a result of a new Equalization formula, announced recently in the Federal Budget.

"...I can not emphasize enough, the leadership of our Premier in securing predictable, formula-based Equalization transfers from the Federal Government which have resulted in sustainable, long-term gains for Prince Edward Island."

Mr. Speaker, I can not emphasize enough, the leadership of our Premier in securing predictable, formula-based Equalization transfers from the Federal Government which have resulted in sustainable, long-term gains for Prince Edward Island.

Our Province has consistently proposed an Equalization formula that is predictable and fair, to allow the Province to better project future budgets. The new formula is a positive start on the road to fiscal balance. It will allow our Province to continue to support the services that Islanders hold dear: health care, education and social services.

In addition, Mr. Speaker, the quiet diplomacy of our Premier, the Dean of Canadian Premiers, has helped to deliver base funding in four key federal transfer programs. The introduction of base funding for provinces and a ten-province standard for Equalization are significant improvements for Prince Edward Island.

Base funding has been a goal of our Province for many years. Our Premier is to be congratulated for leading the charge and for settling for nothing less than fair and equitable treatment of Prince Edward Islanders. The strides we have made today will help us deliver a stronger, safer and better future for this Province.

"The strides we have made today will help us deliver a stronger, safer and better future for this Province."

Today's Leadership; Tomorrow's Prosperity.... Investing in Education

Mr. Speaker, our Government has invested heavily in education because we know that an educated person has the best opportunity to find a satisfying job and increased income.

Our Government wants to provide all Islanders with opportunities to learn and succeed. We are doing this by making strategic investments in public education that support learners of all backgrounds and abilities.

Mr. Speaker, this Budget contains an unprecedented increase of $16.7 million for education. It will help assist educators build on the work they are doing to help Islanders learn and succeed. Our

"....this Budget contains an unprecedented increase of $16.7 million for education."

record of achievement is evident in many areas. Today, over 97 per cent of eligible Island children are enrolled in publicly-funded kindergarten programs. Enrolments in post-secondary education are at record levels. Our student-educator ratio in PEI is now 14 to 1, one of the best in the country.

"Our student-educator ratio in PEI is now 14 to 1, one of the best in the country."

Island students have the third highest rate of participation in French Immersion programs in Canada.

Total provincial spending on education has increased 54% since 1996 to $247 million this year. Mr. Speaker, this Budget will enable us to do even more to offer effective learning opportunities that help Islanders succeed.

Early Learning

This Fall, our new Age of Entry policy will reach full implementation. This means that Island children will be five years old when they enter kindergarten, and six years old when they begin school. The new policy was recommended by Island educators as a way to help children be more prepared for success when they begin school.

The provincial kindergarten curriculum continues to be improved. This coming year the Department of Education will pilot an integrated curriculum in English, French and French Immersion kindergarten programs. The curriculum will include outcomes in language arts, mathematics, science, social studies, health and the arts.

"The provincial kindergarten curriculum continues to be improved."

We commend our kindergartens for introducing a new progress report this year. Similar to a school report card, the progress report provides parents with more information on how their children are doing and where they need help.

Funding for the 2007-2008 kindergarten year will be enhanced by $220,000 to help kindergarten operators address rising costs and maintain quality programs.

Elementary and Secondary Learning

Improving student achievement continues to be a major priority of our Government. In 2005, our Premier established a task force to consult with Islanders and recommend more ways to help students succeed.

Following the report of the Task Force on Student Achievement last year, our Premier announced major new funding of $9 million to go directly towards implementing the Task Force recommendations.

Mr. Speaker, $1 million was allocated for this work in 2006-2007. This year $3 million is being provided, and the number will rise to $5 million in 2008-2009.

Our most significant accomplishments are in improving early literacy and in assessment. Three new early literacy coaches were hired by the school boards last year. These teachers work with other teachers to develop literacy plans that meet the specific needs of Grades 1, 2 and 3 students. Mr. Speaker, this has been one of the most significant contributors to improved reading and writing that these schools have ever had.

"Our most significant accomplishments are in improving early literacy..."

In this Budget, our Government will add three additional early literacy coaches to help students develop strong early literacy skills.

"....our Government will add three additional early literacy coaches ..."

Mr. Speaker, research shows that when parents are engaged in their children's learning, they add to their children's academic and social development. This year, we will provide the PEI Home and School Federation with a new grant of $50,000 to involve more parents in learning.

The Task Force recommended that common assessments be introduced to improve teaching and learning. This Spring, common assessments will be done across the Province to assess Grade 3 reading and writing skills and Grade 9 math skills. The assessments were developed by Island teachers based on the provincial curriculum. The results will be used to provide parents with more information on how their children are doing. They will help teachers to guide teaching, intervention and enrichment and they will assist the Department and the school boards to improve teaching and learning.

This year, investments of $200,000 will be made to update social studies curriculum in Grade 6, to update high school geography courses, and to introduce a new PEI history curriculum for high schools.

Mr. Speaker, subjects like home economics, physical education, science and music cannot be learned from textbooks alone. Equipment is also essential to assist with the teaching of these subjects. To this end, the materials and equipment budgets for schools will increase this fiscal year by $100,000. New investments will also be made in equipment that allows high schools to offer more courses through the use of technology.

"...the materials and equipment budgets for schools will increase this fiscal year by $100,000."

Funding of $570,000 will be made available for a new welding program at Three Oaks Senior High School. The program will be offered to students who attend Three Oaks, Kensington and Kinkora high schools. A new automotive curriculum is now being piloted in several schools and a new carpentry curriculum will be piloted in September.

New funding of $500,000 will be provided this year to improve services for students with special needs and to help teachers with the challenges of class composition. A major portion of this funding will be used for additional resources such as new educational assistants and youth workers.

"...$500,000 will be provided this year to improve services for students with special needs..."

Mr. Speaker, funding provided this year for three new school psychologists has enabled the boards to improve assessment and supports for children with learning difficulties.

Students with special educational needs will be further assisted this year through the addition of two new Speech Language Pathologists to work with school age children on language development and literacy skills.

Students with special needs face particular challenges when they get ready to leave high school. They need advice, cooperative work opportunities and community support. New funding will be made available this year to provide these students with additional supports as they transition from school to work or further learning.

Based on the Staffing and Funding Model introduced by our Government, we will add six new teaching positions this year and maintain approximately 30 teaching positions that would otherwise have been lost due to declining enrolments. Mr. Speaker, this represents a cost of $2 million this year alone.

"...we will add six new teaching positions this year ..."

Post-Secondary Learning

Mr. Speaker, Islanders are proud of the excellent progress being made in post-secondary learning in our Province.

Enrolments are at record levels. Major investments in facilities and technology have greatly improved the learning environment and campus life. Research and development capacity has more than doubled. Faculty have received prestigious teaching awards, and students are being recognized for their achievements at the national and international levels.

By providing substantial increases in base funding this year, our Government is firmly committed to supporting this remarkable growth and achievement.

Monsieur le Président, la connaissance des deux langues officielle est une mesure importante afin de s'engager à devenir un citoyen canadien engagé. Cette année, nous allons ajouter 120,000 $ pour l'achat de nouvelles ressources pour les programmes de français et d'immersion dans les écoles secondaires.

"Cette année, nous allons ajouter 120,000 $ pour l'achat de nouvelles ressources pour les programmes de français et d'immersion dans les écoles secondaires."

Our Government will take over responsibility for the Labour Market Development Agreement, which will allow us to deliver focused skills training to better serve the needs of Island students, workers and the business community.

Our Government will soon enter into a major new apprenticeship partnership with the Federal Government, Holland College and other partners to enable Islanders who are working in selected trades to become licensed journey persons.

Base funding for Holland College will increase this year by $1 million, up $250,000 over last year's increase of $750,000. At Holland College, the Centre for Labour Force Innovation opened this past year and the College became the first in the country to offer an Applied Degree in Culinary Operations.

"Base funding for Holland College will increase this year by $1 million..."

As part of our ongoing commitment of $25 million to the UPEI Building A Legacy Campaign, UPEI will receive an additional $550,000 this fiscal year for its campus renewal program.

Base funding for UPEI will increase by $1.4 million to enable the University to address increases in salaries and operating costs while continuing to offer competitive tuition rates.

"Base funding for UPEI will increase by $1.4 million ..."

During the past number of years, the campus of UPEI has undergone tremendous growth and expansion. The campus renewal campaign celebrated a couple of major milestones with

the 20th anniversary of the Atlantic Veterinary College, as well as the grand opening of the National Research Council Institute for Nutrisciences and Health. This year will see the completion of the new School of Business Administration.

Rising tuition fees concern all students. More Island students are graduating, but many are forced to deal with increasing debt loads. Our Government recognizes the increased burden on our students and that rising tuition fees can sometimes be a barrier for those wishing to pursue a post-secondary education.

Mr. Speaker, our Government believes education should be accessible and affordable for Islanders. As our economy continues to perform well, we are in a stronger position to make key investments.

" ...our Government believes education should be accessible and affordable for Islanders."

In this Budget, our Government will roll back undergraduate tuition fees at UPEI by 10% for the upcoming academic year.

Further to that, we will work in partnership with UPEI to cap future tuition increases up to an annual total of 2% for the next four years.

"...our Government will roll back undergraduate tuition fees at UPEI by 10% for the upcoming academic year."

Mr. Speaker, we believe we can do more and we will. In this Budget, we will increase the Island Student Award for UPEI students to $2,000. For students at Holland College and La Société éducative, we will implement the Island Skills Award, a $1,000 award for each student not currently receiving Federal skills development benefits.

Our Government has worked to develop viable options for students that are immediate and inclusive for all students. As compared to deferred debt programs in other jurisdictions which focus too much spending on administrative costs and offer tax rebates to students down the road, our programs deliver the best immediate results for students. The programs will assist the

university in attracting new students and are inclusive for all students, not just those receiving student loans.

Mr. Speaker, this is a substantial investment in post-secondary education. We believe this will continue to encourage Island students to pursue their futures which will help us to remain competitive in the region, and throughout the country.

Notre gouvernement est en négotiation avec La Société éducative de l'Île-du-Prince-Édouard afin de déterminer son statut officiel dans le domaine de l'éducation post secondaire.

Student financial assistance will increase by $470,000 this year to make more students from middle-income families eligible for provincial student loans, and to address higher interest rates. With this announcement, we are changing the income threshold to allow more Island students to access student assistance. Our Government will establish a dedicated position at post-secondary institutions to facilitate handling of student loan applications and inquiries.

"...we are changing the income threshold to allow more Island students to access student assistance."

Mr. Speaker, we recognize that learning does not end after high school, university or a training program, but continues throughout life. This year, we will make new funding of $100,000 available to improve adult literacy skills by training more adult educators, increasing workplace learning opportunities, and increasing awareness of adult literacy and learning programs such as the GED program.

Effective immediately, the $20 cost to write GED examinations is eliminated.

"Effective immediately, the $20 cost to write GED examinations is eliminated."

Today's Leadership; Tomorrow's Prosperity... Improving Health Care Delivery

Mr. Speaker, stabilizing health care today and strengthening it for tomorrow continues to be the number one priority for our Government.

In this Budget, we will increase health care spending almost 9% by adding $30 million to the annual operating budget.

"...we will increase health care spending almost 9% by adding $30 million to the annual operating budget."

Mr. Speaker, the recruitment and retention of physicians and improving emergency services continues to be our main focus. Since our Government took office, we have increased the number of practicing doctors by 46. There are now 192 practicing physicians in our Province - an all-time high.

In this Budget, we will invest $1.8 million toward the continued recruitment of new doctors.

Mr. Speaker, medical students looking toward careers in our Province have told us more must be done to assist with managing debt loads and increased incentive packages. Currently, medical residents must begin paying interest on their student debt in year one of their residency. In this Budget, we will provide more funding for student debt through the deferred debt repayment program for medical students, so that our medical residency students can focus on their primary goal of studying and practicing to become the best they can be.

"There are now 192 practicing physicians in our Province - an all-time high."

Our Premier has requested Dalhousie University Medical School and the Federal Minister responsible to designate medical residency students as full-time students, so their debt can be deferred not only by our Province, but also the Federal Government.

Mr. Speaker, in addition to our on-going recruitment efforts, our Government has dedicated $300,000 to continue to expand the Province's capacity to provide medical education that is tailored to our Island hospitals and PEI physicians.

Mr. Speaker, we will increase the number of emergency room doctors at Prince County Hospital in Summerside by expanding the hours of daily coverage from 28 hours to 32 hours.

"...we will increase the number of emergency room doctors at Prince County Hospital in Summerside..."

Mr. Speaker, pharmacy services is an integral component of our acute care system. To enhance the delivery of pharmacy services in our hospitals, our Government is devoting $735,000 toward the introduction of an improved medication administration system. In addition, there is a $300,000 capital investment which has already been committed in the Capital Budget, which results in a total allocation of $1,035,000 toward medication administration.

Improvements will include the implementation of a provincial unit dose packaging system and the addition of new pharmacist and pharmacy technician positions at the Queen Elizabeth and Prince County Hospitals. This system will improve the safety and overall efficiency of the medication administration process and allow the pharmacists to take a more active role in providing clinical advice to other health care providers and patients.

"...addition of new pharmacist and pharmacy technician positions at the Queen Elizabeth and Prince County Hospitals."

In our efforts to ensure quality diagnostic imaging services, such as mammography, ultrasound and X-ray, Mr. Speaker, we are investing $104,000 toward the implementation of a Quality Improvement Program. This program includes the addition of two new Quality Control Technologist positions who will work closely with Radiologists and staff in the provincial and community hospitals to ensure the quality of diagnostic imaging services meets or exceeds the standards recommended by Health Canada.

As part of Government's on-going commitment to improving access to quality heath care, our Government will invest $445,000 in the Neonatal Intensive Care Unit (NICU) at the Queen Elizabeth Hospital to help meet demand for high-risk delivery and aftercare of newborn babies on PEI. Eleven new nursing positions will be added to address the rising number of Island babies needing special nursery care.

"...our Government will invest $445,000 in the Neonatal Intensive Care Unit..."

Mr. Speaker, to address the issue of increased demand for speech language services, Government has committed an additional $200,000 to the Department of Health for the development of a program for Speech and Language Development Service Delivery and more Speech and Language Services. A phased implementation process will be used to maximize the engagement of internal and external stakeholders and to collaboratively develop tools that support model policies and process. To this end, Government will provide increases to Speech and Language Services to develop a planned approach for meeting the needs of the future.

Mr. Speaker, we continue to support improvements to Home Care by investing an additional $200,000 to aid in developing a provincial best practice model to assist seniors to stay in their homes longer.

"...we continue to support improvements to Home Care by investing an additional $200,000..."

Government has secured and dedicated $150,000 of Federal funding to implement a pre-Diabetes screening pilot program. In partnership with the Provincial Diabetes Program, the Four Neighbourhoods Community Health Centre will be screening clients for pre-Diabetes—a condition in which various individuals are at high risk for a diagnosis of Diabetes.

Mr. Speaker, cervical cancer in Island women aged 20 to 44 years is a serious concern. This year, the Federal Government approved funding for the creation of an HPV vaccination program. PEI will receive approximately $1.3 million of this amount. This funding will permit PEI to develop a province-wide vaccination program

to reduce the incidence of cervical cancer and HPV associated infections. Part of our goal will be to provide the vaccine to approximately 875 girls in Grade 6 across PEI.

In this Budget, Mr. Speaker, our Government is investing an additional $150,000 in the Methadone Maintenance Treatment Program (MMT). This will allow for the hiring of a methadone maintenance professional and other program requirements to improve the delivery of this important, successful program.

"...investing an additional $150,000 in the Methadone Maintenance Treatment Program."

Our Government is committed to improving access to services consistent with the 2004 Health Accord by allocating $1.3 million to improve access to health care, with strategic investments in radiation therapy, sight restoration, joint replacements and diagnostic imaging.

Mr. Speaker, following the recommendation of the PEI Cancer Society, our Government will provide funding to create a Cancer Patient Navigator.

"...our Government will provide funding to create a Cancer Patient Navigator."

New equipment, including specialized operating room stretchers and instruments will be purchased to enhance the efficiencies in our operating rooms. Government will also hire a Wait Times Coordinator who will be responsible for supporting the implementation of new strategies to improve access to health care and to communicate with patients that are on wait lists for treatment.

In addition, Mr. Speaker, we will be the first Government of Prince Edward Island to provide a patient wait time guarantee for citizens requiring radiation therapy.

Today's Leadership; Tomorrow's Prosperity.... For Social Services and Seniors

Mr. Speaker, research shows the treatment of youth with addictions is most successful when family and other support systems are involved. Our Government is committed to ensuring those youth dealing with addictions can get the necessary help while continuing to receive important support from family and friends.

In this Budget, we have earmarked in General Government $1 million for a Youth Addictions Facility in Prince Edward Island, awaiting the finalization of construction plans.

Mr. Speaker, Prince Edward Island is home to over 100 foster families who make a real difference in the lives of Island children daily. In this Budget, our Government will provide an additional $149,000 to support increases to the room and board rates, as well as the monthly fee provided to foster families for the care and needs of foster children.

"...our Government will provide an additional $149,000 to support increases ... for the care and needs of foster children."

Community-based volunteer organizations provide essential front-line social services as well as residential and vocational supports to persons with disabilities, victims of family violence, families in crisis and seniors. In this Budget, we will add $590,000 in annual grants to organizations such as the Catholic Family Service Bureau, Family Services PEI, PEI Council of the Disabled and the CNIB.

Mr. Speaker, our Government recognizes that Islanders with disabilities have real challenges and real needs for supports to go about their daily lives and daily work. The Disability Support Program aims to support clients with their most essential needs. Today, our Government will increase the Disability Support Program budget to over $9 million, an increase of over 11 per cent.

"...our Government will increase the Disability Support Program budget to over $9 million..."

Social housing needs of today continue to change. Over the next year, we will continue extensive repair and renovation work to refresh our social housing stock, including most of the 1,149 seniors units. Our Government will also work with the private sector to increase the number of housing units available for families with low incomes and address the future housing needs of the disabilities community.

In addition to modernizing housing units for low-income families and seniors, in this Budget, we will invest $527,000 to help social assistance clients with rising shelter costs.

"...invest $527,000 to help social assistance clients with rising shelter costs."

The Family Health Benefit Program is an important drug program for low-income families with children. Our Government will invest an additional $90,000 this year for program enhancements. Firstly, income thresholds will expand from a net family income of $22,000 to $24,800. Secondly, families will be eligible to receive coverage under the Program if at least one child is a full-time student and under 25 years old. These new initiatives within the Family Health Benefit Program will begin July 1st and will expand opportunity for up to 400 clients.

Mr. Speaker, some 26,000 Islanders, the majority of whom are seniors, have access to drug coverage support through provincial drug programs. Over the past six years, the budget for drug programs has increased by over 94%. In this Budget, we will provide an additional $2.2 million to meet demands of the provincial drug programs in the coming year.

In this Budget, our Government will invest $1 million for new cancer drugs to assist Islanders in their fight against that dreaded disease.

"...will invest $1 million for new cancer drugs to assist Islanders in their fight against that dreaded disease."

Mr. Speaker, this Budget continues to build upon our record of enhancing programs and support for Prince Edward Island seniors. The Seniors' Secretariat was established in November 2005 to develop and support plans, policy and programs to

improve the quality of life for Island seniors. Our Government is pleased to provide $150,000 to enable the Seniors' Secretariat to move forward with its priorities.

"...provide $150,000 to enable the Seniors' Secretariat to move forward with its priorities."

In the Speech from the Throne last Fall, our Government outlined sweeping changes to improve the fairness and affordability of long-term care for our seniors. Our Government has changed the assessment process for long-term care, by considering a senior's income rather than assets. Also, seniors will no longer be required to pay the medical costs of nursing home care, a savings to seniors of $6.6 million. In the Capital Budget, we established a program to upgrade our provincial manors.

In February, our Government announced strategic investments in early learning and child care. Supporting an Island vision to enhance healthy development for Island children, our Government will invest over $1.7 million into early learning this year with an on-going commitment of $1.8 million annually, beginning in 2009. This investment equates to a 25 per cent increase in annual expenditures to the regulated early childhood sector on Prince Edward Island.

As part of the Early Learning Action Plan, an early childhood literacy specialist will be hired this year to support early childhood educators in licensed child care centres. This work will better prepare our Island children for later success in school.

Today's Leadership; Tomorrow's Prosperity... Increasing Public Safety

Mr. Speaker, our Government recognizes the growing importance of ensuring our Province is safe for all residents. In the Provincial Budget last year, we provided the RCMP with $300,000 in new funding for the establishment of three drug enforcement positions dedicated to street-level drug activity in the Province.

Targeting, identifying and stopping drug trafficking is an ongoing struggle, but we are slowly, steadily winning this important fight.

This past year, the RCMP laid more than 200 drug-related charges. Their work removed $1.2 million worth of drugs from our streets. Over 100 individuals have been charged and taken off our streets, helping to make our communities safer.

"Their work removed $1.2 million worth of drugs from our streets."

In this Budget, we will continue to support this initiative. We will invest an additional $212,400 in the RCMP for Phase II of the Street Level Drug Resources Initiative. This will enable the RCMP to staff two additional positions for the continued fight against drug trafficking in our Province. In addition, Mr. Speaker, by providing the necessary funds to staff permanent positions in the drug traffic unit, our investment will allow the RCMP to put more resources and officers in the Highway Traffic section, to crack down on impaired driving. Our Government will join with other stakeholders and continue to make every effort to keep people from driving while impaired.

Our Government has been working collaboratively with Aboriginal organizations in the Province to enhance the lives of the Aboriginal people. In this Budget, we will provide funding to hire a new Aboriginal Affairs officer, to increase the capacity of the Office of the Attorney General to carry out its role in Aboriginal Affairs.

"... we will provide funding to hire a new Aboriginal Affairs officer..."

Mr. Speaker, enhancing public safety by contributing to the rehabilitation of youth and adult offenders, remains a priority for our Government. Recent studies of our nursing services revealed the need for additional resources in this area and the Budget includes an additional $110,000 of new money for this purpose. This will enable the division to provide 72 hours of additional nursing services on a weekly basis within our institutions, which operate around the clock, seven days per week.

Today's Leadership; Tomorrow's Prosperity... Reducing Taxes

Mr. Speaker, I am pleased to announce significant reductions in the personal income tax system that will benefit all Islanders. These reductions will start in the 2007 taxation year, effective January 1st, so that Islanders will benefit from a full year of reductions.

"...significant reductions in the personal income tax system that will benefit all Islanders."

We will further lower taxes in 2008 as well. We will raise the thresholds of the Basic Personal Amount, Spousal Amount, Age Amount and our Tax Brackets by 2% in 2007 and by 4% in 2008, over current levels. The High Income Surtax Amount will also be increased so that middle-income families no longer pay the surtax. These tax reductions will benefit all Islanders, in all types of family situations, at all income levels and of all ages.

When fully implemented on January 1st, 2008, these measures will amount to a reduction of over $11.2 million in the personal income tax that Islanders pay. $11.2 million is equal to more than 5% of the Province's total annual personal income tax revenue.

"...these measures will amount to a reduction of over $11.2 million in the personal income tax... "

Our Government has reduced personal income taxes significantly since it has taken office. When the tax reductions contained within this Budget are fully-implemented next year, a typical single individual living in PEI will be paying 20.3% less provincial personal income tax annually than they were in 1997. A typical family of four will pay 30.3% less provincial personal income tax annually than in 1997.

Mr. Speaker, effective for the 2007 taxation year, our Government will double the value of the personal income tax Education Amounts, both for full-time and part-time students. This will significantly reduce income taxes for both students and in many cases their parents, who are helping them pay for school.

"...Government will double the value of the personal income tax Education Amounts..."

Island students at UPEI, Holland College and all other post-secondary institutions will benefit significantly from this measure, which is by itself worth in excess of $1.5 million a year.

"Island students at UPEI, Holland College and all other post-secondary institutions will benefit..."

Mr. Speaker, as part of the Federal Finance Minister's new Tax Fairness Plan announced last Fall, the Federal Government introduced Pension Income Splitting starting in the 2007 taxation year. I am pleased to announce today that our Government will also parallel this important and substantial measure worth more than $6.5 million annually in tax savings to Island seniors.

The recent Federal Budget also included many other income tax reductions which will significantly benefit all Islanders. We are pleased to flow through numerous measures worth more than $700,000 annually in provincial tax reductions, so Islanders will benefit from both Federal and Provincial tax savings.

One particularly important measure which our Government will parallel is the increase from $500,000 to $750,000 in the Lifetime Capital Gains Exemption for fishermen, farmers and small business owners. These individuals make a valuable contribution to our economy every day, and they will see very significant tax savings as a result of this new measure.

Mr. Speaker, we remain committed to ensuring continued growth in our economy and I am pleased to announce that we are further reducing the income tax rate on small businesses. As of April 1st, 2007, our small business income tax rate was lowered to 4.3%. We will continue to lower the rate until it stands at only 1%; the lowest of any Canadian province. We are also increasing our small business threshold from $300,000 to $400,000 effective this year, and these combined measures will save small businesses more than $2.2 million this year alone.

"...our small business income tax rate was lowered to 4.3%."

Mr. Speaker, the income tax measures that I am announcing today amount to more than $34 million of savings for Island taxpayers and Island businesses over this year and next. This is in addition to $9.5 million of Federal income tax savings for Islanders this year, as announced in the recent Federal Budget.

In addition Mr. Speaker, we recognize the rising price of crude oil worldwide, combined with uncertain global political climates have impacted the price of gas for Islanders. While the determined price of fuel is out of our control, we believe steps must be taken to give Island motorists a break at the pumps.

Effective midnight tonight, we will cap the variable component of the provincial tax on gasoline and diesel fuel at 8.7 cents per litre. Based on current conditions, capping the gas tax will protect Islanders from further tax increases when the average minimum pump price exceeds $1.00 per litre. To reflect the new cap, this change will result in a reduction by 1.4 cents per litre, effective midnight tonight. This measure will save Island motorists an estimated $1.5 million this year.

"...we will cap the variable component of the provincial tax on gasoline and diesel fuel at 8.7 cents per litre."

Mr. Speaker, during pre-budget consultations, the Canadian Restaurant and Food Service Association presented its case for the elimination of the licensed establishment user fee. I am pleased to announce today that the PEI Liquor Control Commission will immediately eliminate that fee, saving liquor establishments more than $350,000 in fees annually.

Today's Leadership; Tomorrow's Prosperity... Our Environment, Our Future

Mr. Speaker, our Province has become a national leader in green energy production, and we continue to set the North American standard for waste reduction with our Island-wide Waste Watch program. This is a practice all Islanders share and a record in which all Islanders are proud.

"...our Province has become a national leader in green energy production..."

We remain committed to maintaining our designation as Canada's Green Province and will continue to fund programs that allow us to build a safe, sustainable future.

This past year has seen major advances in renewable energy in Prince Edward Island as the Eastern Kings Wind Farm began commercial operation, the Wind Energy Institute of Canada opened at North Cape, and Islanders invested more than $5 million in PEI Energy Savings Bonds. PEI is now generating 12.5% of its total electricity needs from wind energy at Eastern Kings and North Cape.

"PEI is now generating 12.5% of its total electricity needs from wind energy ..."

As a result, about $12 million that used to leave the Province each year to import electricity generated from fossil fuels, will now stay here in PEI, contributing to the local economy. We will continue to move forward in 2007-2008.

Mr. Speaker, our Government will begin converting our schools to alternative energy sources, to further reduce our dependency on fossil fuels. We will work directly with our students as we convert to alternative sources such as wind, biomass, geothermal and solar power. We believe the programs our children learn at school will be taken home to be implemented with their families, friends and communities.

This Budget includes $15 million in new Federal funding for clean air and climate change projects in Prince Edward Island. Working with our Federal partners, we will build upon PEI's strong history of renewable energy research and development, increased energy efficiency and reduced greenhouse gas emissions. Our Government is committed to lead by example. We will invest $150,000 in 2007-2008 to implement positive practices towards greening Government operations.

Our Government was recently involved with public consultations concerning our provincial water supply. We look forward to receiving that report from the Environmental Advisory

Committee and we will commit the necessary funding to implement the recommendations of that report.

Last summer, our Government launched a very successful pilot project to establish an enforcement presence on the Confederation Trail – and in particular, to discourage the use of all-terrain vehicles on the Trail. This Budget will build on that success. Two permanent part-time enforcement officers will be hired to patrol the Confederation Trail as well as other off-road areas such as beaches. The officers will create a greater sense of safety and security for Islanders who enjoy these outdoor areas, and they will help implement new legislation that encourages the safe use of ATVs, especially for Island youth.

Mr. Speaker, last Fall, our Government received the Public Forest Council's report on our provincial forests. The report outlined many recommendations aimed at improving our private woodlots and we will commit new funding to ensure our Island woodlots are healthy for today and tomorrow.

"...we will commit new funding to ensure our Island woodlots are healthy for today and tomorrow. "

Today's Leadership; Tomorrow's Prosperity... Creating Jobs

Mr. Speaker, the record of achievement of our Government through job creation is second to none. We have accomplished record levels of new jobs. We have partnered with the private sector to put Islanders to work and our efforts have delivered the lowest unemployment rate our Province has seen in almost 30 years.

"...our efforts have delivered the lowest unemployment rate our Province has seen in almost 30 years."

Upon taking office, our Premier moved our Province toward diversity. His emphasis was on moving Prince Edward Island to a year-round economy by focusing on strategic new sectors, while at the same time investing in the main drivers of our economic engine, our primary resources. Mr. Speaker, our Premier has delivered. The unemployment rate for February 2007, normally

our slowest month, was 10.1%. This compares with 18.8% in February, 1996.

Mr. Speaker, our Government is committed to working with Island businesses and employees to enhance our labour market development strategies.

Mr. Speaker, employers asked for support and our Government is delivering. In this Budget, we will invest $600,000 for a Workplace Training Program that will allow businesses to train new and existing employees on the work site.

"...we will invest $600,000 for a Workplace Training Program..."

Mr. Speaker, Prince Edward Island enjoys one of the highest labour force participation rates in the country. As the competition for the Canadian labour force continues to stiffen, our Government is committed to ensuring the existing labour force remains strong enough to attract new and expanding companies. In this Budget, we will implement a program which will assist unemployed older workers to increase their employability and help to reintegrate them into the labour force.

Mr. Speaker, as mentioned earlier, our strategic tax incentive programs which reward existing and new companies for creating new jobs, has been an overwhelming success. We have in this Budget, $5 million for the Department of Development and Technology to honour outstanding tax certificates. It is a tremendous investment for our Government. Since the Fall of 2004, over 1,000 new jobs in Prince Edward Island have been created under these tax incentive programs.

"...over 1,000 new jobs in Prince Edward Island have been created under these tax incentive programs."

In addition, the growth of our aerospace sector at Slemon Park continues to be a Prince Edward Island success story. In this Budget, the tax incentive rebates for aerospace companies will be increased to $4.8 million, which reflects the continued growth of new jobs for Islanders. In all, seven aerospace companies employ over 850 Islanders with more than $275 million in annual export sales.

Mr. Speaker, our Government will increase funding for its Science and Innovation Fund to $550,000, which assists Island companies with new ideas to bring them to commercialization creating new jobs for our future.

Today's Leadership; Tomorrow's Prosperity... Strengthening Our Primary Resources

Mr. Speaker, the primary resource industries of agriculture, fisheries and aquaculture continue to be the foundation of the Province's economy and the way of life in our rural communities. In 2006, after several years of declining prices, total farm cash receipts in Prince Edward Island increased by 2.7 percent to $380 million, mainly because of higher potato prices. The landed value of the lobster sector reached an all-time record high of $113 million, while the landed value of aquaculture species was steady at $30 million. The value of processed products from the land and sea is close to $1.0 billion annually, accounting for 65 percent of this Province's exports to international markets.

"...the primary resource industries of agriculture, fisheries and aquaculture continue to be the foundation of the Province's economy..."

Mr. Speaker, our Government is committed to the sustainable growth and development of these industries. Over the coming year, we will continue to work with the Government of Canada on a new Agriculture Policy Framework agreement which will include more effective safety net programs.

The Department of Agriculture, Fisheries and Aquaculture will work with producers to identify new opportunities to diversify and expand production, including crops for energy. We will continue to make new investments for organic production. In this Budget, we will add $500,000 to our sustainable organic farming programs in support of moving producers into natural organic production.

"...we will add $500,000 to our sustainable organic farming programs..."

Mr. Speaker, two new pilot projects will be implemented through an ecological goods and services incentive program to protect the Province's watersheds.

In support of adding more value to our products, our Government, under the leadership of our Premier, has been working closely with the beef and hog industries to develop new products and markets. Over the past year, steps were taken to stabilize and expand the processing of beef and pork products, including work with new owners at the former Garden Province Meats plant to introduce natural, omega-3 and organic pork to premium markets.

The Government recognizes the need to protect and enhance the health and productivity of the Province's natural resources.

We continue to work with other governments to address concerns over declining lobster landings in the Northumberland Strait.

In this Budget, Mr. Speaker, we provide $150,000 to develop a major project, with the Prince Edward Island Aquaculture Alliance, to deal with issues related to invasive species in the marine environment.

"...provide $150,000 ...to deal with issues related to invasive species in the marine environment."

Today's Leadership; Tomorrow's Prosperity... Investing in Tourism

Mr. Speaker, the level of competition the tourism industry faces each year continues to grow, yet our Province still establishes itself as a popular destination in a global marketplace.

During the past number of years, our Government has worked closely with the tourism sector, through the Tourism Advisory Council, to promote festivals and events that bring visitors to Prince Edward Island. That partnership has resulted in a five-year strategic plan to increase our advertising and promotional opportunities.

Mr. Speaker, our Government has continued to add new money to Tourism P.E.I.'s marketing budget and we will continue to do so. In this Budget, we will increase the marketing and product development budget by $800,000. This is in addition to a marketing budget increase of $500,000 during the past fiscal year.

"...we will increase the marketing and product development budget by $800,000."

In addition, Mr. Speaker, we continue to explore new markets and initiatives to attract visitors. We have just completed a successful market launch in Calgary and are confident that inroads have been made which will pay dividends in the future.

Mr. Speaker, we are adding $1 million in capital reconstruction for our Provincial Parks. We continue to work with industry to improve air access to our Province. Earlier this year, we welcomed Delta Airlines to the growing family of airlines at the Charlottetown Airport. This daily route to Boston will increase traffic at the Airport, which reached an all-time high of 225,000 passengers in 2006.

Major renovations are underway at the Charlottetown Seaport terminal and the Charlottetown Airport.

Mr. Speaker, we are optimistic for a solid tourism season. Upcoming this year are many significant events. Prince Edward Island will host international rock legends Aerosmith in July. Our Province will host Master's champions' Mike Weir and Vijay Singh for the second annual Legends of Golf at the Links at Crowbush Cove and the inaugural Tour de PEI cycling event will showcase the very best of Prince Edward Island.

"Prince Edward Island will host international rock legends Aerosmith in July."

Today's Leadership; Tomorrow's Prosperity.... Communities and Culture

Mr. Speaker, music and culture help define our Province. By celebrating our roots, we plant the seed for a stronger future. For many years, PEI musicians have made a tremendous impact

on regional, national and international stages. From the legendary songs of Gene MacLellan, to the iconic Canadian stories of Stompin' Tom Connors, to the toe-tapping fiddle medleys of Don Messer, PEI's musicians have led the way.

Our Government recognizes the positive contributions to our culture and economy by the members of the PEI music industry.

In this Budget, our Government will invest $130,000 in new program funding for the PEI music industry. We have long known our musicians and songwriters are as talented as any in the Country and we understand strategic investment is needed to ensure that they continue to succeed. With this investment, our Government will assist Island musicians with the production of their music and the marketing of their products in the Region, the Country and to the World.

"...will invest $130,000 in new program funding for the PEI music industry."

Protecting our past and celebrating our heritage has always been a top priority for Islanders.

Our Government will construct a new Artifactory in Murray River to ensure that over 80,000 Island artifacts are stored in a safe and secure facility. The Provincial Artifactory will work closely with the seven Provincial Museums and 26 Community Museums to ensure the storied history of Prince Edward Island continues to be presented in communities throughout PEI.

Mr. Speaker, the history of Prince Edward Island is best shared by all Islanders. We will continue to ensure that history is properly displayed by increasing the operating grant to the PEI Community Museums Association.

Our Provincial Library Service makes an important contribution to family literacy and makes our communities stronger. Across Prince Edward Island, we have seen growth in library use and the valuable benefits they add to communities. In this Budget, we will provide additional resources to increase the hours of

operation of our provincial libraries in Montague, Kensington, Alberton and Cornwall.

Mr Speaker, Islanders will be proud hosts of the 2009 Canada Summer Games. It will be an event in which all Islanders will share in hosting Canada's finest young athletes. Our Premier and our Minister of Community and Cultural Affairs joined Island athletes at the 2007 Canada Winter Games in the Yukon. Our Island team displayed the very best of Prince Edward Island by competing fairly and to the best of their abilities. Our Island team brought back four medals and laid the groundwork for what is sure to be the very best Canada Games in 2009.

"... Islanders will be proud hosts of the 2009 Canada Summer Games."

Mr. Speaker, last year our Government introduced a Physical Activity Strategy to promote the importance of physical activity to the health of all Islanders. We are pleased to allocate $55,000 in this year's Budget to implement the recommendations. Funding from this Program will also enhance Prince Edward Island's involvement in a physical activity and healthy eating bilateral agreement being proposed by the Public Health Agency of Canada.

We all know the many benefits derived from hosting events that bring visitors to our Province. We are pleased to announce today that $100,000 has been set aside to enable the Sport and Recreation Division of the Department of Community and Cultural Affairs to meet some of the needs of the dedicated community and provincial sport organizations hosting sporting events in the Province.

The Confederation Centre of the Arts makes a huge contribution to the economy and culture of this Province. Over the next five years, our Government will contribute a total of $250,000 to capital repairs and improvements. This investment by the Province will enable the Confederation Centre to leverage more than $1 million in funding from private sources and other levels of government.

"The Confederation Centre of the Arts makes a huge contribution to the economy and culture of this Province."

Monsieur le Président, notre réseau de centres scolaires-communautaires de langue française sert de modèle dans le pays et a eu des répercussions considérables sur la préservation et le développement des communautés acadiennes et francophones de la Province.

In order to extend the full range of services and partnerships, the network has been expanded to include enhanced capacity for community-based activities for West Prince through the new facility in DeBlois. Services in Souris have also been expanded. We will contribute additional funding of more than $129,000 under the Canada - P.E.I. Agreement on Official Languages to provide for these expanded operations.

Today's Leadership; Tomorrow's Prosperity.... Municipalities and Infrastructure

Mr. Speaker, our Government is very proud of the progress it is making in rebuilding and upgrading our aging infrastructure, especially in the area of sewer and water, and municipal roads and bridges. In this Budget, we will invest $25 million in Infrastructure funding, an increase of almost $10 million over the past year.

"...we will invest $25 million in Infrastructure funding, an increase of almost $10 million over the past year."

In addition, our Government, under the leadership of our Premier, recognizes that municipalities small and large have growing needs which must be addressed. Our Government has fostered a strong partnership with communities and a hallmark of our Government has been responding to the needs of Island communities.

Today, I am pleased to announce that our Government will be increasing municipal transfers by $1.675 million including $300,000 in new spending for municipal equalization which of itself is an increase of over 25 percent. This funding will provide assistance to the smaller municipalities with the greatest need.

"...$300,000 in new spending for municipal equalization..."

Conclusion

Mr. Speaker, our economy continues to perform strongly. Difficult decisions we have made in the past and our continued commitment to delivering new programs prudently are paving the way for our future. Our goals are ambitious, but they are affordable.

This Budget recognizes our growth and demonstrates our leadership and commitment to a prosperous future for Prince Edward Island. This Budget includes $54 million worth of new initiatives which will have a lasting impact on our Province.

This Budget delivers a $2.1 million surplus, our third consecutive surplus year. This demonstrates our leadership in making Prince Edward Island strong for today, and for tomorrow.

"This Budget delivers a $2.1 million surplus, our third consecutive surplus year."

This Budget demonstrates our Government's commitment toward the best education for Islanders. We are investing more money in kindergarten. We are implementing recommendations of the Task Force on Student Achievement. We are investing more money to build and renovate schools.

We are making post-secondary education more affordable and accessible for Islanders.

Also, Mr. Speaker, this Budget makes significant investments in health care. We will continue to focus our efforts on recruitment and retention of doctors. We are implementing wait times guarantees. We are investing in youth addiction services. We are upgrading our manors. We are adding new cancer drugs to the Provincial Formulary and we will break ground on a new, single, state-of-the-art hospital for West Prince.

We are investing more money in our seniors. We are continuing to invest in our primary resources.

We are investing more money toward public safety, in particular the ongoing fight against street-level drugs, and we are cracking down on impaired driving. We are cutting personal income taxes and capping the provincial tax on gasoline.

Mr. Speaker, we continue to increase our tourism marketing and promotions budget, so that we continue to make PEI a popular destination for travelers from around the world.

Mr. Speaker, this Budget demonstrates the leadership of our Premier and our Government as we build toward a strong, prosperous future for Prince Edward Island. Islanders are proud of what we have accomplished together and are optimistic about what we can aspire to in the future.

Mr. Speaker, I would like to conclude this Address by thanking my colleagues, the staff of Provincial Treasury and the many others who have assisted in the preparation of this Budget. The sound financial management of this Province is a partnership of many and I thank those people, and all Islanders, for their efforts.

Thank you. Merci.

BUDGET SCHEDULES

1. Budget Summary
2. Revenue Summary
3. Expenditure Summary
4. Summary of Budgeted Surplus (Deficit) of Crown Corporations
5. Summary of Depreciation of Tangible Capital Assets
6. Where the Money Comes From
7. Where the Money Goes
8. Cash Requirements
9. Summary Comparison - Provincial Tax Rates
10. Personal Income Tax Reductions

Schedule 1
Budget Summary

	2007-2008 Budget Estimate	2006-2007 Forecast	2006-2007 Budget Estimate
	$	$	$
REVENUE			
Provincial Own Sources	724,344,800	704,980,300	687,718,600
Federal Sources	525,320,100	465,966,200	458,740,900
Sinking Fund Earnings	18,987,800	17,000,000	17,300,000
Net Consolidated Surplus of Crown Corporations	17,485,200	2,574,200	1,924,800
Total Revenue	1,286,137,900	1,190,520,700	1,165,684,300
EXPENDITURE			
Program Expenditures	1,124,058,000	1,036,141,400	1,022,152,200
Interest Charges on Debt	121,201,700	116,127,100	118,276,200
Operating Expenditure	1,245,259,700	1,152,268,500	1,140,428,400
Depreciation Expense	38,777,300	36,951,700	37,755,400
Total Expenditure	1,284,037,000	1,189,220,200	1,178,183,800
CONSOLIDATED SURPLUS (DEFICIT)	**2,100,900**	**1,300,500**	**(12,499,500)**

Schedule 2
Revenue Summary by Source

	2007-2008 Budget Estimate	2006-2007 Forecast	2006-2007 Budget Estimate
	$	$	$
PROVINCIAL OWN SOURCES			
Taxes	621,471,600	602,923,700	583,248,000
Fees and Services	39,417,500	41,467,400	41,033,000
Sales	33,471,100	29,830,000	34,598,400
Licenses and Permits	18,050,100	18,293,500	17,714,600
Investments	11,934,500	12,465,700	11,124,600
Sub-Total	724,344,800	704,980,300	687,718,600
GOVERNMENT OF CANADA			
Equalization	293,958,000	291,262,000	286,242,700
Canada Health Transfer	94,693,000	91,053,900	90,203,000
Canada Social Transfer	41,119,000	43,943,700	43,396,000
Base Funding for Infrastructure	25,000,000	-	-
Trust Fund for Clean Air and Climate Change	15,000,000	-	-
Infrastructure Works Program	10,720,000	8,797,100	8,797,100
Wait Time Reduction	9,154,500	5,139,000	5,139,000
Canada Employment	5,000,000	5,000,000	5,000,000
Public Transit	3,775,000	1,726,600	-
Housing Programs	3,479,800	1,568,000	1,530,000
Minority and Second Language	2,622,300	2,607,500	2,607,500
Post Secondary Education Trust	2,121,600	2,131,300	2,100,000
Young Offenders Services	2,112,200	2,212,100	2,212,100
French Services Agreement	1,513,500	1,398,200	1,255,000
Rehabilitation Programs	1,376,000	1,376,000	1,376,000
Other	13,675,200	7,750,800	8,882,500
Sub-Total	525,320,100	465,966,200	458,740,900
TOTAL CURRENT REVENUE	**1,249,664,900**	**1,170,946,500**	**1,146,459,500**
Sinking Fund Earnings	18,987,800	17,000,000	17,300,000
Net Consolidated Surplus of Crown Corporations	17,485,200	2,574,200	1,924,800
TOTAL OPERATING REVENUE	**1,286,137,900**	**1,190,520,700**	**1,165,684,300**

Schedule 3
Expenditure Summary by Department

	2007-2008 Budget Estimate	2006-2007 Forecast	2006-2007 Budget Estimate
	$	$	$
CURRENT			
Agriculture, Fisheries and Aquaculture	29,240,100	28,222,800	27,317,800
Community and Cultural Affairs	43,184,700	36,542,800	32,628,500
Tourism PEI	23,133,300	20,965,700	19,537,900
Development and Technology	6,209,000	5,123,800	4,788,100
Prince Edward Island Business Development Inc.	26,678,300	27,886,600	22,174,100
Employment Development Agency	3,660,100	3,718,400	3,580,200
Education	247,135,000	229,963,900	230,499,100
Island Regulatory and Appeals Commission	1,200,000	1,200,000	1,200,000
Office of the Attorney General	35,091,800	33,945,200	33,612,500
Executive Council	3,206,100	3,059,600	3,030,200
Health	376,826,200	348,908,000	346,160,700
Social Services and Seniors	117,273,900	110,294,600	114,266,500
Legislative Assembly	3,811,200	3,686,500	3,624,200
Provincial Treasury	33,907,800	30,117,900	30,772,000
Employee Benefits	32,801,400	35,873,100	31,770,000
Council of Atlantic Premiers	123,500	123,500	123,500
General Government	18,439,000	12,793,300	14,520,300
P.E.I. Lending Agency	1,386,500	1,400,500	1,400,500
Technology Asset Management	2,300,000	2,335,000	2,595,800
Environment, Energy and Forestry	27,109,400	12,264,900	12,218,600
P.E.I. Energy Corporation	597,600	866,500	398,500
Transportation and Public Works	87,358,700	84,730,800	84,041,800
Interministerial Women's Secretariat	427,000	308,000	308,000
Auditor General	1,524,300	1,431,700	1,446,800
P.E.I. Public Service Commission	5,228,600	4,138,900	4,074,000
Depreciation Recorded in Crown Corporations	(3,795,500)	(3,760,600)	(3,937,400)
PROGRAM EXPENDITURE	1,124,058,000	1,036,141,400	1,022,152,200
Interest Charges on Debt	121,201,700	116,127,100	118,276,200
OPERATING EXPENDITURE	**1,245,259,700**	**1,152,268,500**	**1,140,428,400**

Schedule 4
Summary of Budgeted Surplus (Deficit) of Crown Corporations

	2007-2008 Budget Estimate	2006-2007 Forecast	2006-2007 Budget Estimate
	$	$	$
Charlottetown Area Development Corporation[1]	(361,300)	(236,300)	8,600
Island Investment Development Inc.	5,000,000	2,066,700	2,000,000
Island Waste Management Corporation	3,200	(92,000)	(368,100)
P.E.I. Agriculture Research Investment Fund Inc.	(175,600)	(251,500)	(427,400)
P.E.I. Aquaculture and Fisheries Research Initiative Inc.	(321,600)	(321,600)	(152,000)
Prince Edward Island Agricultural Insurance Corporation	98,500	537,700	48,500
Prince Edward Island Energy Corporation	13,090,000	963,500	916,000
Prince Edward Island Grain Elevators Corporation	24,000	24,000	24,000
Prince Edward Island Self-Insurance and Risk Management Fund	200,000	177,500	139,000
Prince Edward Island Special Projects Fund	(125,000)	(125,000)	(127,800)
Summerside Regional Development Corporation[1]	53,000	(168,800)	(136,000)
NET CONSOLIDATED SURPLUS OF CROWN CORPORATIONS	17,485,200	2,574,200	1,924,800

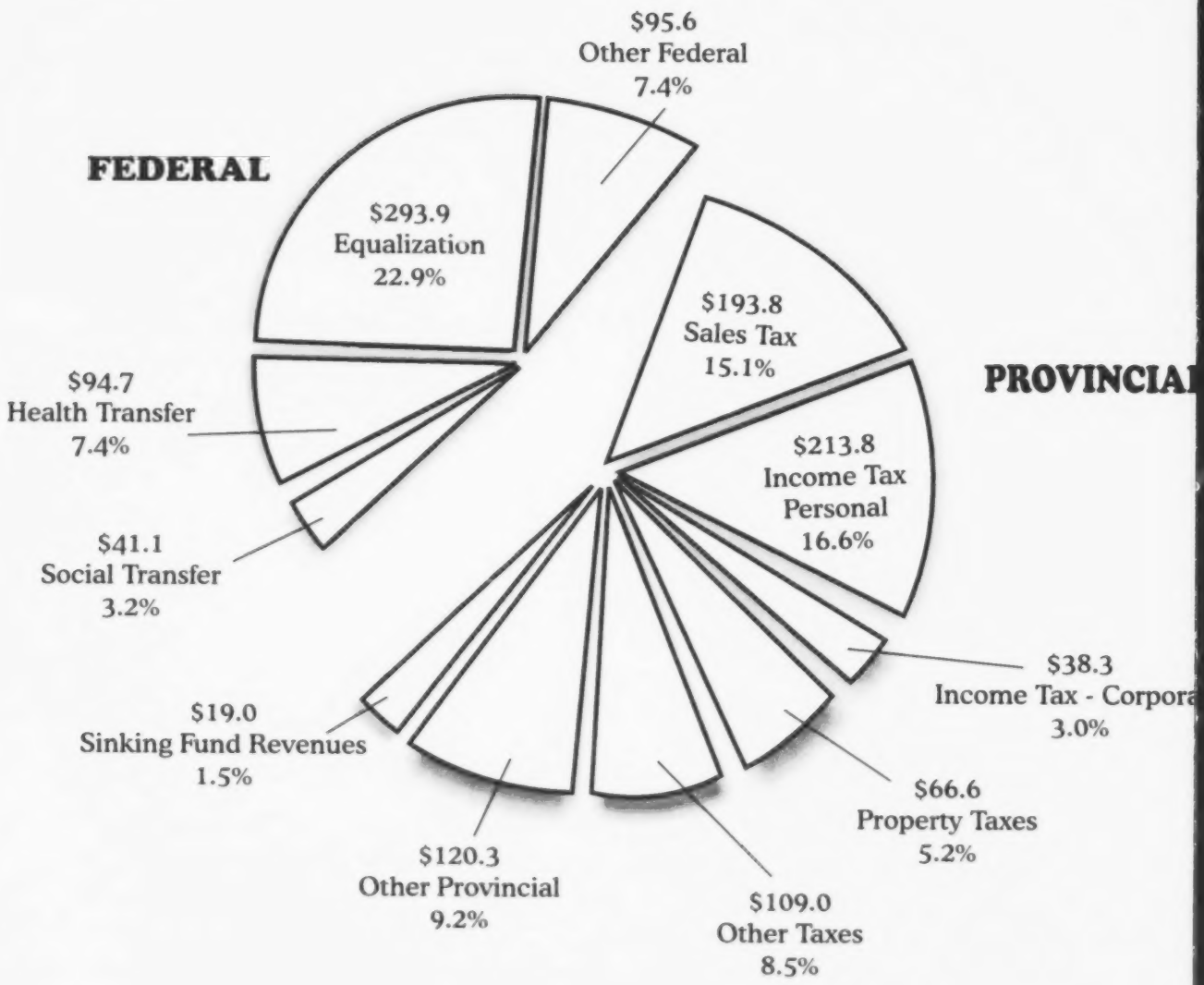
Notes

1 Budget Estimates include 85% of the total surplus (deficit) of the Charlottetown Area Development Corporation; and 75% of the total surplus (deficit) of the Summerside Regional Development Corporation, to reflect the Province's ownership of these entities.

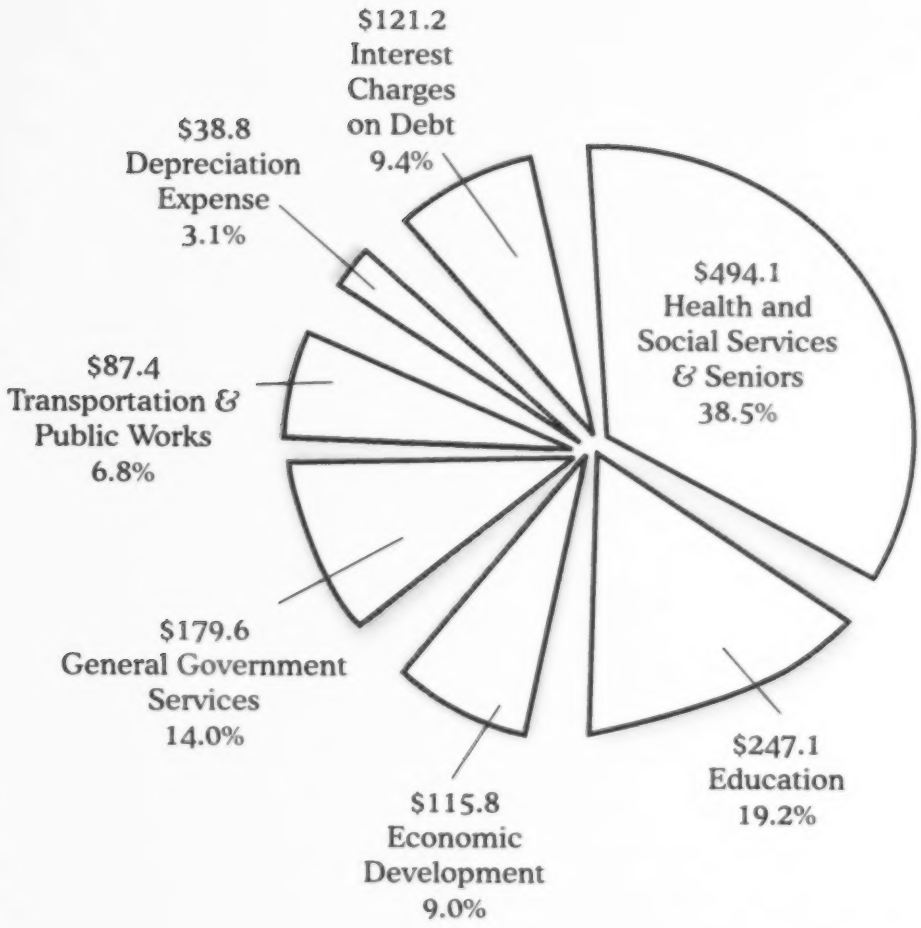
Schedule 5
Summary of Depreciation of Tangible Capital Assets

	2007-2008 Budget Estimate	2006-2007 Forecast	2006-2007 Budget Estimate
	$	$	$
DEPRECIATION OF TANGIBLE CAPITAL ASSETS			
General Government:			
Buildings and Improvements	5,531,200	4,878,500	5,487,400
Lease Improvements	305,000	305,000	305,000
Roads and Bridges	15,234,900	15,261,700	16,015,700
Motor Vehicles	1,286,000	1,186,000	1,186,000
Equipment	5,602,000	4,994,600	4,187,700
Other	1,021,200	1,021,200	969,000
Total General Government	28,980,300	27,647,000	28,150,800
Other Sectors:			
Education Sector	5,971,500	5,514,100	5,645,000
PEI Business Development Inc.	1,800,000	1,800,000	1,730,600
Tourism PEI	495,500	460,600	556,800
PEI Housing Corporation	1,500,000	1,500,000	1,650,000
PEI Museum and Heritage Foundation	5,000	5,000	10,000
Crown Building Corporation	25,000	25,000	12,200
Total Other Sectors	9,797,000	9,304,700	9,604,600
TOTAL DEPRECIATION EXPENSE	**38,777,300**	**36,951,700**	**37,755,400**

Schedule 6
Where the Money Comes From
2007-2008
($ millions)



Schedule 7
Where the Money Goes
2007-2008
($ millions)



Schedule 8
Cash Requirements

	2007-2008 Budget Estimate ('000 $)	2006-2007 Forecast ('000 $)	2006-2007 Budget Estimate ('000 $)
CASH REQUIREMENTS			
Consolidated (Surplus) Deficit	(2,101)	(1,300)	12,499
Acquisition of Tangible Capital Assets	58,978	41,525	40,960
Depreciation	(38,777)	(36,952)	(37,755)
Net Borrowings on Behalf of Crown Corporations	28,370	(100)	26,620
Sinking Fund Earnings	18,988	17,000	17,300
Sinking Fund Provisions	15,660	16,350	16,350
Change in Short-Term Payables/Receivables	(5,399)	15,677	(424)
Transfer to Pension Fund	21,200	21,200	16,000
Maturing Debt:			
Canada Pension Plan	10,010	13,526	13,526
Refinancing of Canada Pension Plan	(10,010)	(13,526)	(13,526)
Public Debentures	35,000	30,186	30,186
Maturities Financed by Sinking Fund	(35,000)	(30,186)	(30,186)
TOTAL CASH REQUIREMENTS	96,919	73,400	91,550
SOURCES OF CASH			
Short-term Borrowing	(3,081)	73,400	91,550
Long-term Borrowing	100,000	-	-
TOTAL SOURCES OF CASH	96,919	73,400	91,550

Schedule 9

Summary Comparison - Provincial Tax Rates[1]

	Sales Tax (%)	Tobacco Tax ($/pk 25)	Fuel Tax Gasoline (¢/litre)	Fuel Tax Diesel (¢/litre)	Corporate Income Tax General (%)	Corporate Income Tax Small (%)
British Columbia	7.0	4.48	14.5	15.0	12.0	4.5
Alberta	0.0	4.00	9.0	9.0	10.0	3.0
Saskatchewan	5.0	4.58 [3]	15.0	15.0	13.0	4.5
Manitoba	7.0	4.38 [3]	11.5	11.5	14.0	3.0
Ontario	8.0	3.09	14.7	14.3	14.0	5.5
Quebec	7.5	2.58	15.2 [3]	16.2 [3]	9.9	8.0
New Brunswick	8.0	2.94 [3]	10.7 [3]	16.9 [3]	13.0	5.0
Nova Scotia	8.0	4.13 [3]	15.5 [3]	15.4 [3]	16.0	5.0
Newfoundland	8.0	4.50 [3]	16.5 [3]	16.5 [3]	14.0	5.0
Prince Edward Island	**10.0**	**4.36**	**11.5** [2]	**11.5** [2]	**16.0**	**4.3**
Atlantic Average	8.5	3.98	13.6	15.1	14.8	4.8
National Average	6.9	3.90	13.4	14.1	13.2	4.8

[1] PEI rates are effective as of April 10, 2007 and all other rates are as known at April 3, 2007.

[2] A 10% tax on the wholesale price applies.

[3] Provincial sales tax applies.

Schedule 10
Personal Income Tax Reductions
Annual Thresholds[1]

	2006 Amount	2007 Amount	2008 Amount
Basic Personal Amount [2]	$7,412	$7,560	$7,708
Spousal Amount [2]	$6,294	$6,420	$6,546
- Income Threshold	$629	$642	$655
Age Amount [2]	$3,619	$3,691	$3,764
- Income Threshold [2]	$26,941	$27,480	$28,019
2nd Tax Bracket Threshold [2]	$30,754	$31,369	$31,984
3rd Tax Bracket Threshold [2]	$61,509	$62,739	$63,969
Surtax Threshold	$5,200	$8,850	$12,500
Education Amount (Full-time Students)	$200	$400	$400
Education Amount (Part-time Students)	$60	$120	$120
Fiscal Year	**2006/07**	**2007/08**	**2008/09**
Value of Reduction [3]	$1,149,000	$5,370,000	$7,692,000

[1] Thresholds are effective January 1st of each respective taxation year.

[2] Thresholds will increase by 2% in 2007 and by 4% in 2008, over current levels.

[3] The total value of these personal income tax reductions is $14,211,000.

BUDGET PAPER A:

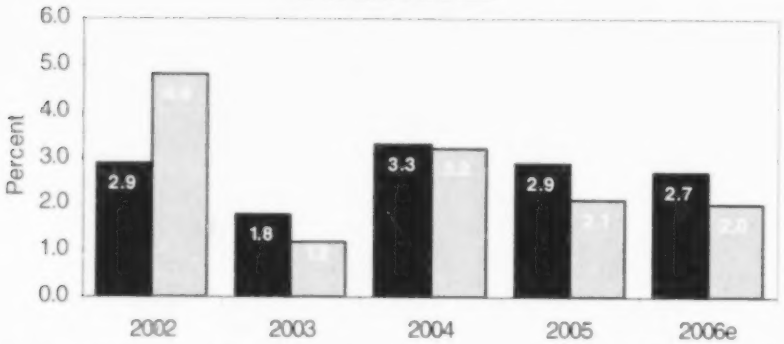
BACKGROUND NOTES ON THE ECONOMY

BUDGET PAPER A:
BACKGROUND NOTES ON THE ECONOMY

Economic Overview 2006

The Prince Edward Island economy continued to expand at a solid pace in 2006. The Department of the Provincial Treasury estimates that Gross Domestic Product (GDP) in the province rose in the order of 2.0 per cent in 2006, measured in constant-dollar terms. This compares to real GDP growth of 2.1 per cent in 2005 and 3.2 per cent in 2004, as illustrated in Diagram 1 which compares real GDP growth for P.E.I. and Canada. In its January 2007 Monetary Policy Report Update, the Bank of Canada estimated that the national economy expanded by 2.7 per cent in 2006, down slightly from 2.9 per cent in 2005. Growth in 2006 was supported by strong domestic demand but limited by weak export growth.

Diagram 1
REAL GDP GROWTH, 2002-2006 Estimate
CANADA AND P.E.I.



Sources: Statistics Canada; P.E.I. Provincial Treasury

The Prince Edward Island economy in 2006 benefitted from a strong non-residential construction sector, continued strength in fish processing, solid retail sales growth, and positive employment gains. Limiting growth in 2006 was a reduction in residential housing construction. In addition, the P.E.I. economy was affected by adverse external factors such as a stronger Canadian dollar, higher energy prices and a weakened United States economy.

International Economic Review and Outlook

World Economy

The world economy continued to expand at a robust pace in 2006. According to the International Monetary Fund (IMF), world output increased by 5.1 per cent in 2006, and compares to growth of 4.9 per cent in 2005. Among the advanced economies, growth in 2006 was particularly strong in the U.S., despite having slowed mid-year, followed by solid economic gains in Canada and the United

Kingdom. Among emerging market and developing economies, growth in China and India continued to be robust.

For 2007, the IMF projects that the world economy will continue to expand strongly, but at a reduced rate, with 4.9 per cent forecast. The IMF presents a number of risk factors looking forward: the slowdown in the U.S. housing market, tighter conditions in financial markets, and concerns over continued large global imbalances.

U.S. Economy

According to the United States Bureau of Economic Analysis, the U.S. economy in 2006 expanded by 3.3 per cent, up slightly from 3.2 per cent in 2005. Growth was exceptionally strong in the first quarter of 2006, at 5.6 per cent on an annualized basis, but slowed sharply in the second and third quarters, to about 2.3 per cent on average. This was largely the result of a sharp contraction in residential investment and a slowdown in inventory accumulation. Growth of the U.S. economy in 2006 was supported by strong consumer spending, non-residential investment and an acceleration in exports.

The Bank of Canada, in its January 2007 Monetary Policy Report Update, forecasts that the U.S. economy will expand at a reduced rate in 2007, by 2.5 per cent, with economic growth projected to pick up in the second half of the year.

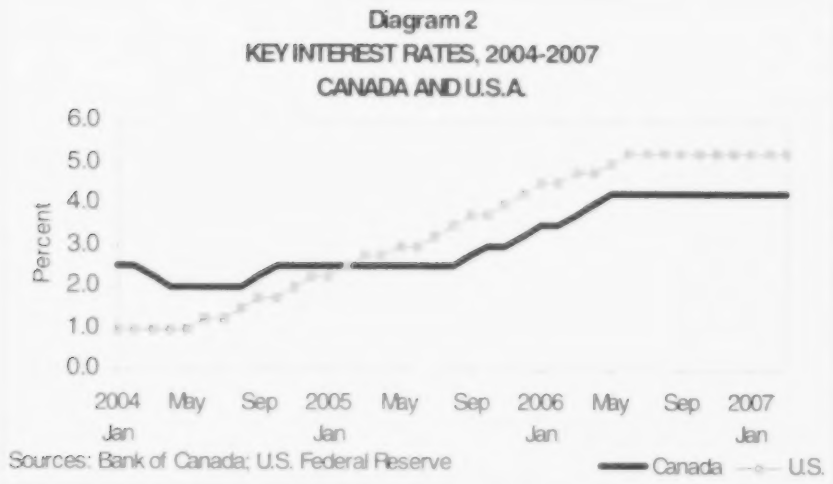
National Economic Review and Outlook

Canadian Economy

The Canadian economy in 2006 benefitted from strong domestic demand, largely attributed to consumer spending. According to the Bank of Canada, this was supported by a strong labour market and personal income growth in 2006, as well as increased household net worth and credit. National employment levels in 2006 increased by 1.9 per cent, and compares to growth of 1.4 per cent in 2005. The unemployment rate in Canada averaged 6.3 per cent in 2006.

For 2007, the Bank of Canada projects that the national economy will slow to about 2.3 per cent. The Bank's projection draws from continued strength in domestic demand however continued weakness in Canadian exports is expected to exert downward pressure on overall growth. A gradual recovery is expected to begin in the latter half of 2007 mirroring the Bank's expectation of a U.S. recovery.

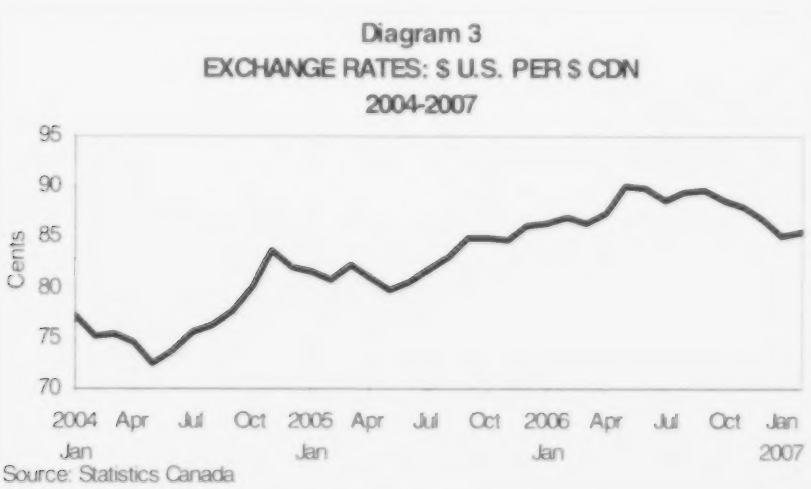
According to the Conference Board of Canada, growth of the national economy in 2007 is expected to be fueled largely by strong economic performances in the Western provinces, particularly in Alberta by way of large oil sand investments, as well as in Newfoundland and Labrador, reflecting a rebound in mineral production. Difficulties associated with export-sensitive manufacturing sectors in Central Canada, particularly relating to the auto and forestry industries, are expected to moderate growth for the country. The outlook with respect to the Maritime Provinces for 2007 remains positive, according to the Conference Board.



Canada-U.S. Interest Rates

Diagram 2 compares policy interest rates for both Canada and the U.S. over the 2004 to 2007 period. As can be observed by the monthly series, both countries have followed similar trends with respect to their monetary policy initiatives since September 2005. Prior to that period however, the U.S. Federal Reserve exercised a tighter monetary policy position relative to a more relaxed approach by the Bank of Canada. In its last interest rate announcement, dated 6 March 2007, the Bank of Canada held the target for the overnight rate at 4.25 per cent. Similarly, the Federal Reserve in its 21 March 2007 announcement maintained its policy rate, at 5.25 per cent.

Canada-U.S. Exchange Rates



The Canadian dollar relative to the U.S. dollar continued to strengthen in 2006. On an average annual basis, the Canadian currency against its U.S. counterpart appreciated by 6.8 per cent in 2006 relative to 2005. That year, the Canadian dollar appreciated by 7.3 per cent. Diagram 3 shows the average monthly trend in the Canadian dollar relative to the U.S. dollar from January 2004 to February 2007. As can be observed, the exchange rate peaked over this period in May 2006, when the average rate reached 90.13 cents, before having depreciated to

85.42 cents as at February 2007. A higher Canadian dollar makes our exports more expensive and imports less expensive.

The Prince Edward Island Economy

Provincial Economic Review and Outlook

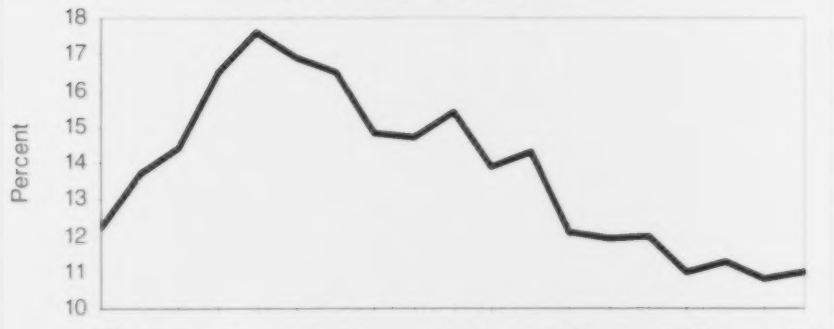
According to the Department of the Provincial Treasury, the Prince Edward Island economy is estimated to have expanded by 2.0 per cent in 2006, supported by strong domestic demand in the province. Growth however was limited by a weaker export performance, of 1.7 per cent in 2006, which compares to a robust 20 per cent expansion in 2005.

For 2007, Provincial Treasury forecasts real GDP growth of 2.0 per cent for Prince Edward Island, consistent with 2005 and 2006 rates. Measured in nominal dollars, provincial GDP is projected to expand in the order of 3.5 per cent. The Province in 2007 stands to benefit from strong employment gains in the services-sector, which will support personal income growth and retail spending in the province. In addition, manufacturing shipments are expected to strengthen in 2007 and the outlook for machinery and equipment investment in P.E.I. is robust. Growth of the provincial economy in 2007 will be moderated by a contraction in both residential and non-residential capital construction volumes. The P.E.I. economy in 2007 will continue to adjust to the same external factors that affected export growth in 2006.

A.1 HIGHLIGHTS OF THE P.E.I. ECONOMY

- Employment in Prince Edward Island reached a record 70,200 in January 2007.
- The value of farm cash receipts was $380.1 million in 2006 a record high for the Province. Potato receipts, valued at $201.8 million in 2006, was also a record high.
- Non-residential capital construction expenditures valued $250.9 million in 2006, an increase of 31.8 per cent relative to 2005. This represents the highest rate of growth in the country.
- Lobster landings in 2006 were the highest in 15 years and the corresponding value, at $113.4 million, was a record high for the industry.
- Retail sales growth in P.E.I. accelerated by 4.0 per cent in 2006.
- The value of fish processing in P.E.I. expanded by 34.4 per cent in 2006, and builds on 9.2 per cent growth experienced in 2005.

Diagram 4
UNEMPLOYMENT RATE, 1988-2006
PRINCE EDWARD ISLAND



Source: Statistics Canada

Employment

The employment situation in Prince Edward Island continued to improve in 2006. Employment that year averaged 68,600, an increase of 0.6 per cent relative to 2005. Employment in the goods-producing sector increased by an average of 1,100 in 2006, driven predominantly by strong gains in construction. Partially offsetting was a drop of 700 persons in the service-sector, largely attributed to employment declines in public administration and education. The average annual unemployment rate in P.E.I. in 2006 was 11.0 per cent, up slightly from 10.8 per cent in 2005. Diagram 4 shows the annual rate of unemployment for P.E.I. from 1988 to 2006. As can be observed, the labour market situation in Prince Edward Island improved significantly since the early 1990's.

For 2007, Provincial Treasury projects that employment levels in P.E.I. will expand in the order of 1.0 percent, nearly double the rate experienced in 2006. Employment prospects for the growing financial and business service sectors are favourable for 2007. New companies to Prince Edward Island owing to the projected expansion in these sectors include SeaQuation Inc., CGI Group Inc., AIM-Trimark and Ceridian Canada. In January 2007, average employment in Prince Edward Island reached 70,200, a record high for the province.

Personal Income

Provincial Treasury estimates that personal incomes in Prince Edward Island increased in the order of 2.8 per cent in 2006. Growth was largely attributed to increased labour income and government transfers to persons. Wages and salaries in P.E.I. totalled $1,964.0 million in 2006, an increase of 2.9 per cent over 2005. Labour income growth in 2006 was supported by employment gains and higher earnings.

Government transfers to persons increased in 2006, mainly due to higher Employment Insurance payments. E.I. benefits in 2006 totaled $218.3 million, an increase of 8.4 per cent from 2005. Regular benefits valued $137.9 million in 2006, an increase of 9.1 per cent over the prior year. For 2007, personal incomes are expected to increase in the order of 4.0 per cent, due largely to stronger employment prospects and increased earnings.

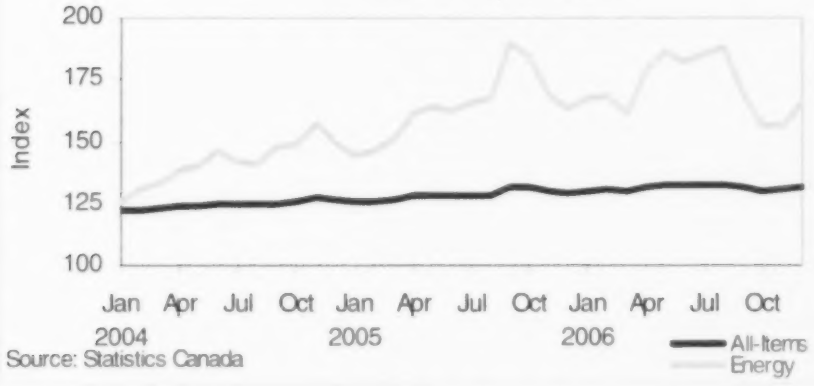
Inflation

Consumer prices in Prince Edward Island rose modestly in 2006 as energy price inflation eased from double-digit highs experienced in previous years. Consumer price inflation in the province was 2.2

Diagram 5

ALL-ITEMS CPI AND ENERGY PRICE INDEX

PRINCE EDWARD ISLAND, 2004-2006



Source: Statistics Canada

per cent in 2006, down from 3.2 per cent in 2005. For 2006, energy price inflation fell just under 5.0 per cent on average, easing considerably from average annual rates of about 12.0 per cent over the 2003 to 2005 period. Diagram 5 compares the All-Items Consumer Price Index to the Energy price index from 2004 to 2006. As the diagram shows, energy prices in 2006 were especially high during the Summer months before easing thereafter.

Population

For the second year in a row Prince Edward Island was the only province in Atlantic Canada to show positive population growth. On 1 July 2006 its population reached 138,519, an increase of 343 persons or 0.2 per cent from 2005. This was well below the national average of 1.0 per cent.

Between 1 July 2005 and 30 June 2006 the total number of Island births was 1,393 a decline of 1.1 per cent from the same period in 2005, while the number of deaths totalled 1,231, which is up by 1.9 per cent. Thus population growth by natural increase (births minus deaths) amounted to 162 during that period.

In addition to natural increase, preliminary data show that 232 immigrants chose Prince Edward Island as their new home between July 2005 and June 2006. This was the largest net international migration since 1979.

DETAILED INDUSTRY ANALYSIS

Agriculture

Table 1 shows farm cash receipts for Prince Edward Island from 2002 to 2006. Total receipts in 2006 valued $380.1 million, an all-time record for the province. The agriculture industry in Prince Edward Island experienced mixed market conditions in 2006. Potato prices in the first three quarters of the year were significantly higher relative to 2005, which boosted receipts to $201.8 million, also a record high. By contrast, cattle receipts declined in 2006 and hog farmers had to contend with significantly lower prices, which reduced sales for the industry.

Table 1
FARM CASH RECEIPTS, P.E.I.
(Millions of dollars)

Year	Potatoes	Other	Total Crops	Cattle	Hogs	Dairy	Other	Total Livestock	Direct Payments	**Total Receipts**
2002	189.9	30.5	220.4	25.3	27.7	53.3	12.9	119.2	24.4	**364.0**
2003	185.3	33.8	219.1	17.7	26.5	55.0	13.5	112.7	22.8	**354.5**
2004	151.2	34.5	185.7	14.7	34.0	59.7	14.9	123.2	40.2	**349.1**
2005	166.0	32.8	198.8	21.9	27.5	61.6	15.1	125.7	45.9	**370.3**
2006	201.8	35.9	237.8	20.6	23.5	63.1	13.8	121.0	21.3	**380.1**

Source: Statistics Canada

Island farmers harvested a total of 95,200 acres of potatoes in 2006 and produced 28. 6 million cwts. This represents an 8.7 per cent increase in production over 2005 levels. By comparison, production levels across Canada surged by nearly 14.0 per cent, on average.

Since the fourth quarter of 2006, market conditions for potatoes have become less favourable. Due to increased potato inventories across the nation, potato prices have eased considerably post-2006 harvest. P.E.I. farmers were receiving $1.80 per 10 lb. bag of potatoes sold in the important Toronto market in October 2006, but experienced a significant drop in prices to about $1.40 by the end of December. As at 31 March 2007, prices deteriorated further to about $1.00 per 10 lb. bag. According to Agriculture and Agri-Food Canada, storage levels in Prince Edward Island as at 1 March 2007 were 6.5 per cent higher relative to the same period in 2006. Nationally, storage volumes were 15.6 per cent higher.

Manufacturing Shipments and Exports

The total value of manufacturing shipments in Prince Edward Island in 2006 was $1,351million, an increase of 4.8 per cent, or $61.4 million over 2005. Growth in 2006 was driven by robust gains in fish processing, which expanded in the order of 34.4 per cent in value, or by $86.6 million over 2005. Fish processing activity in the province continues to rebound from the poor performance experienced in 2004 when shipments that year declined by over 34.0 per cent.

Partially offsetting growth in manufacturing shipments in 2006 was a $27.6 million decline in other food shipments, largely comprised of processed potatoes. Non-food shipments expanded by 0.5 per cent in 2006, or $2.4 million attributed largely to growth in metal fabrication and aerospace shipments.

Provincial exports of goods to international destinations valued $786.0 million in 2006, an increase of 1.7 per cent, or $13.2 million over 2005. Growth was largely in food exports, namely in tablestock potatoes and frozen food products. Partially offsetting were reductions in Island exports of wood products and fresh fish.

Fishing

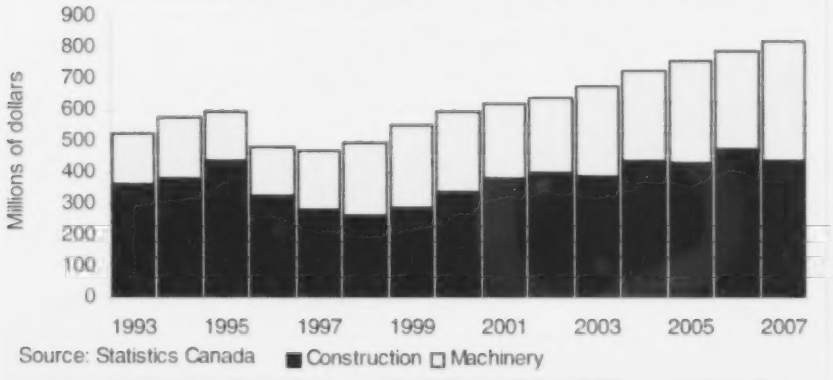
According to the P.E.I. Department of Agriculture, Fisheries and Aquaculture, fishers landed a total of 21.5 million pounds of lobster in 2006, an increase of 16.2 per cent relative to 2005 catches. Lobster landings in 2006 were the highest in 15 years and the corresponding value, at $113.4 million, was a record high for the industry. The strong growth in landings that year was matched with lower wharf prices. Spring 2006 prices for market-sized lobster were on average 4.6 per cent lower relative to 2005 prices, and for the fall fishery, prices were down by 1.5 per cent, on average.

P.E.I. landings of other major fish species declined in 2006, particularly for groundfish and pelagic and estuarial species. These declines were largely the result of quota reductions.

Construction

Non-residential construction activity was robust in Prince Edward Island in 2006 while housing construction continued to soften. According to Statistics Canada's *Private and Public Investment in Canada-Intentions 2007*, total capital expenditures in the province, which includes both residential and non-residential investment, totalled $788 million in 2006, an increase of 3.8 per cent relative to 2005. Comprised in the total is $476.5 million in capital construction, which increased by 10.2 per cent over 2005, and $311.5 million in machinery and equipment investment, which declined by 4.5 per cent. Diagram 6 shows the value of total capital expenditures in the province from 1993 to 2007.

Diagram 6
TOTAL CAPITAL EXPENDITURES
PRINCE EDWARD ISLAND 1993 to 2007 INTENTIONS



Source: Statistics Canada

Non-residential capital construction expenditures valued $250.9 million in 2006, an increase of 31.8 per cent relative to 2005, which represents the highest rate of growth

in the country. Major capital investments in 2006 included the ongoing work on the new Jean Canfield Federal Building and various major projects on the University of P.E.I. campus.

In 2007, machinery and equipment investment is expected to increase by 21.8 per cent, offsetting a projected 12.9 per cent decline in non-residential capital construction. Machinery and equipment investment is concentrated in the utilities sector reflecting the imports of equipment associated with wind energy development in Prince Edward Island. The construction of the West Cape Wind Farm is the most recent major wind energy development, and in January 2007, the $47 million Eastern Kings Wind Farm commenced commercial operation. Government is committed to produce 30 per cent of its total energy needs from local, renewable resources by 2016.

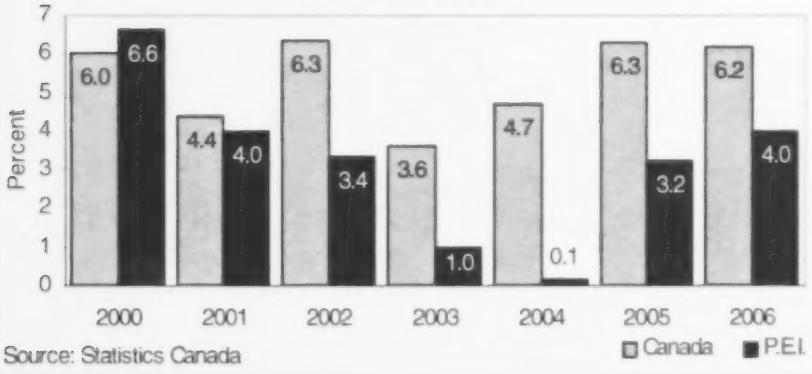
Overall, non-residential capital expenditures in 2007, taking into account both the outlook for non-residential construction investment and machinery and equipment expenditures, is projected to value $597.9 million, an increase of 6.3 per cent over 2006 expenditures.

Residential construction in Prince Edward Island continued to weaken in 2006, which exerted downward pressure on economic growth for the province. New housing starts totaled 738 in 2006, a decrease of 14.4 per cent relative to 2005. According to Canada Mortgage and Housing Corporation, housing starts for Prince Edward Island are expected to weaken further in 2007, by about 9.0 per cent. CMHC states that buyers have trended away from new home construction in favour of the existing home market due to escalating construction costs.

Consumer Spending

The retail sector in Prince Edward Island continued to strengthen in 2006. Retail sales totaled $1,486.3 million in 2006, an increase of 4.0 per cent over 2005. That year, sales rose by 3.2 per cent.

Diagram 7
RETAIL SALES GROWTH, 2000-2006
CANADA AND P.E.I.



Source: Statistics Canada

Diagram 7 compares average annual retail sales growth for Canada and P.E.I. over the 2000 to 2006 period. For 2006, consumer spending increased at most business establishments with the exception of furniture stores and special building materials and garden stores. New motor vehicle sales in Prince Edward Island valued $130.0 million in 2006, an increase of 2.9 per cent over 2005. That year, sales rose by 1.2 per cent.

Tourism

The P.E.I. Department of Tourism estimated that a total of 1.38 million tourists visited the Island in 2006, about the same as in 2005. For 2006, traffic on both the Confederation Bridge and the Ferry, which comprises the vast majority of tourist traffic, was down slightly relative to 2005. Air traffic however increased significantly, by about 20 per cent, driven largely by increased volumes of direct flights to Charlottetown by existing air carriers and by the introduction of new carriers offering direct flight services.

The Department of Tourism estimates that year-round resident and non-resident tourist expenditures totalled $334.1 million in 2006, an increase of 3.0 per cent from 2005. For 2007, tourist visitation is expected to be on par with 2006 volumes while expenditures are expected to increase slightly. The Department maintains that the external pressures affecting Atlantic Canada's tourism industry, such as the high value of the Canadian dollar relative to the U.S. dollar and new passport requirements may limit growth in 2007.

Prince Edward Island Economic Summary and Outlook

The Prince Edward Island economy expanded by 2.0 per cent in 2006. Growth was highlighted by a robust goods-producing sector, attributed largely to non-residential construction. Potato production, lobster landings, and manufacturing shipments further contributed to growth, as did services-producing industries like retail sales and business services. Provincial Treasury estimates that gross domestic product in P.E.I. was valued at $4,320 million in 2006, measured in nominal dollars.

The Prince Edward Island economy continues to be resilient in view of economic challenges. Provincial Treasury forecasts that the Island economy will progress at a consistent pace in 2007, while a reduced rate of growth is projected for Canada. A high domestic currency and a weakened U.S. economy, coupled with consistently high energy prices, are major risk factors affecting growth projections nationally and provincially. For Prince Edward Island, the economy in 2007 will be supported by strong growth prospects in various areas, particularly service-sector employment, consumer spending, machinery and equipment investment, and manufacturing.

SUMMARY STATISTICS
PRINCE EDWARD ISLAND ECONOMY

	1999	2000	2001	2002	2003	2004	2005	2006
Population on 1 July (thousands) *	136.3	136.5	136.7	136.9	137.3	137.9	138.2	138.5
Personal Income per capita ($) *	20,949	22,382	22,679	23,810	24,292	25,326	26,065	26,697[1]
As % of Canadian Personal Income	*81.3*	*81.7*	*80.3*	*83.1*	*82.5*	*82.8*	*81.9*	*80.1*[1]
Employment (thousands) *	60.2	62.7	63.6	64.7	66.1	66.9	68.2	68.6
Unemployment rate - P.E.I. (%) *	14.3	12.1	11.9	12.0	11.0	11.3	10.8	11.0
Unemployment Rate - Canada (%)	*7.6*	*6.8*	*7.2*	*7.7*	*7.6*	*7.2*	*6.8*	*6.3*
CPI - annual change P.E.I. (%)	1.2	4.1	2.6	2.7	3.6	2.1	3.2	2.2
CPI - annual change Canada (%)	*1.7*	*2.7*	*2.6*	*2.2*	*2.8*	*1.9*	*2.2*	*2.0*
Retail Trade ($ millions) *	1,194.7	1,273.9	1,324.6	1,369.0	1,382.7	1,384.7	1,428.6	1,486.3
New Motor Vehicle Sales (units)*	4,802	4,902	4,635	4,996	4,731	4,696	4,847	4,933
Farm Cash Receipts ($ millions) *	349.6	323.1	336.2	364.0	354.5	349.1	370.3	380.1
Potato Receipts ($ millions) *	192.2	154.5	123.9	189.9	185.3	151.3	166.0	201.8
Lobster Landings ($ millions) *	88.9	87.8	103.9	105.4	108.3	100.1	103.2	113.4
Lobster Landings (lbs - millions)	*18.5*	*19.1*	*19.3*	*19.9*	*20.0*	*19.9*	*18.5*	*21.5*
Housing Starts (units)	616	710	675	775	814	919	862	738
Investment ($ millions) *	549.0	596.4	616.4	639.1	677.0	723.6	758.8	788.0
Manufact. Shipments ($ millions)*	1,063.4	1,150.6	1,222.0	1,300.3	1,287.4	1,299.4	1,289.6	1,351.0
International Exports of Goods ($ millions)*	565.5	682.9	666.4	683.0	637.6	644.4	772.8	786.0
GDP at market prices ($ millions) *	3,159	3,366	3,431	3,701	3,806	4,027	4,169	4,320[1]

Notes:

* : revised data

[1]: Provincial Treasury estimate

Sources: Statistics Canada; C.M.H.C.; and P.E.I. Department of Agriculture, Fisheries and Aquaculture

BUDGET PAPER B:

FEDERAL PROVINCIAL FISCAL ISSUES

BUDGET PAPER B:
FEDERAL PROVINCIAL FISCAL ISSUES

" The introduction of Base funding for provinces and a ten-province standard for Equalization are significant improvements for Prince Edward Island. "

Honourable Mitch Murphy
Provincial Treasurer

Introduction

On 19 March 2007 the Federal Minister of Finance, Jim Flaherty, introduced a budget that aspires for a stronger, safer, better future for Canada by restoring fiscal balance, reducing taxes, improving funding support for health, social programs, the environment and implementing a long-term plan for infrastructure funding. The Government of Prince Edward Island is pleased with the introduction of base funding for health, the environment and infrastructure to jurisdictions with relatively small populations. This Budget Paper describes these new fiscal arrangements and their impact on Prince Edward Island.

The 2007 Federal Budget moves to implement key fiscal arrangements issues for the Province of Prince Edward Island. Returning the Equalization to a principle-based, formula-driven program was a key issue that the Ministers of Finance agreed to when they met in December 2007. In addition, the Federal Government now recognizes that base funding is a necessary component for financing programs in smaller jurisdictions.

In total, federal transfers to PEI will reach $525.3 million in 2007/08 or 40.8% of total provincial government revenues.

Equalization

The main components of the plan to restore fiscal balance was to put Equalization back on track by implementing the recommendations that were proposed by the Expert Panel on Equalization and Territorial Formula Financing, otherwise known as the O'Brien report. Equalization revenue to Prince Edward Island is set at $293.9 million for 2007/08 rising to an estimated $310 million in 2008/09.

Equalization is a federal program designed to ensure that all provinces are able to provide reasonably comparable services at reasonably comparable rates of taxation as described in section 36.(2) of the Canadian Constitution.

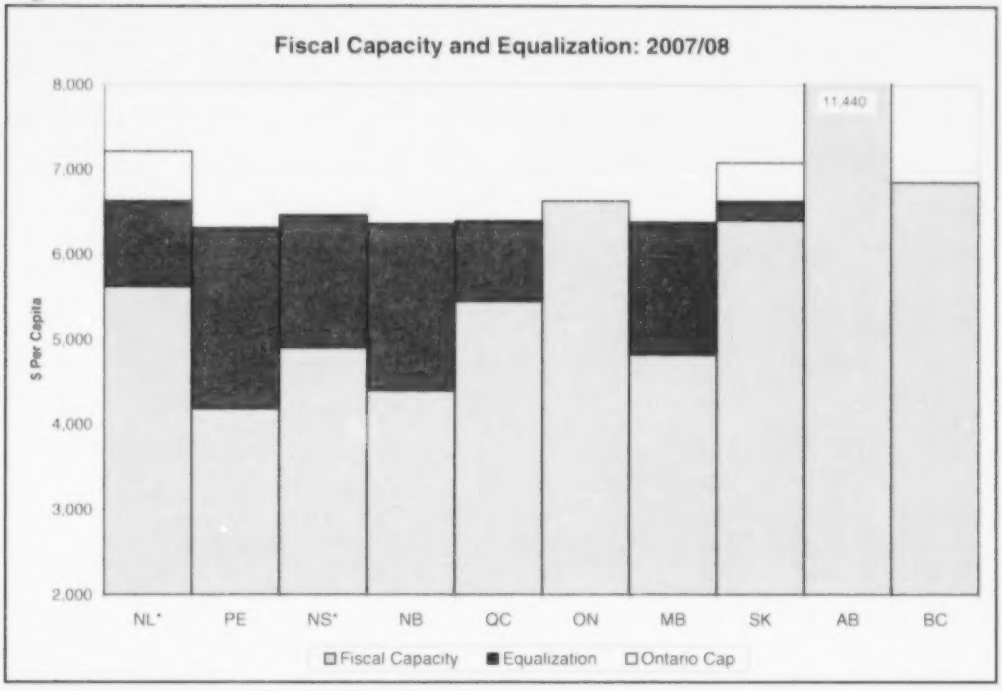
The main elements of the new Equalization program include:

- a standard that reflects the fiscal capacity of all ten provinces.
- removal of fifty per cent of natural resource revenues from the formula.
- payments are now capped to ensure that the after equalization fiscal capacity of a receiving provinces does not exceed that of non-receiving provinces. This measure is a necessary consequence of reducing revenue coverage for natural resources.
- the remaining user fee revenue is eliminated.
- residential market-values will be used in the property tax base.
- the overall operation of the program is simplified by reducing the number of tax bases from 33 to five.
- the payments to provinces will be more stable and predictable for by averaging entitlements and,
- preserves the existing Off-Shore Accords with Newfoundland and Labrador and Nova Scotia.

Provinces have long argued that the Equalization program needs to compensate the less-prosperous provinces' revenue raising capacity to the national average. The new Equalization program proposes to do this. The former standard was based on a lower five province average consisting of Quebec, Ontario, Manitoba, Saskatchewan and British Columbia.

The Expert Panel believed that in principle, natural resource revenues should provide a net fiscal benefit to provinces that own them. The recommendation to remove fifty per cent of natural resource revenue from the program will result in a fiscal benefit to provinces that derive significant revenues from these sources. As a consequence, the after equalization fiscal capacity of receiving provinces will no longer be equal. This is shown in Figure B1 using 2007/08 payments.

Figure 1



** Using O'Brien Recommendations*
Source: Finance Canada, PEI Treasury Calculations

As can be seen from Figure B1, provinces with above average fiscal capacity from natural resources will have a higher fiscal capacity. To maintain a degree of fairness in the system the amount of fiscal benefit from natural resources is "capped" so that a receiving province does not end up with a fiscal capacity that exceeds the lowest non-receiving province. For 2007/08 the lowest non-receiving province is Ontario. The difference in fiscal capacities after Equalization between Prince Edward Island and the "capped" provinces of *Newfoundland and Labrador* and *Saskatchewan* is estimated at $315 per capita or $43.5 million in 2007/08 using the new formula.

The complexity of the program has been reduced by decreasing the number of tax bases in the formula from 33 to 5 and the number of estimates for provincial payments is reduced from eight to one. These new five tax bases are Personal Income, Corporate Income, Sales Tax, Natural Resources and Property Tax. As recommended by the O'Brien report, provincial equalization is now calculated by taking a weighted three-year average of entitlements and is lagged by two years. This means that the Equalization payments to provinces in 2007/08 will be based on the entitlements for fiscal years 2005/06, 2004/05 and 2003/04. The most recent year will have a weight of 50 per cent and 25 per cent for each of the other two years. Prince Edward Island's Equalization payment for 2007/08 by tax base is shown in Table B1.

Table B1. PEI's Equalization Payment by Tax Base: 2007/08				
	2003/04 *25%*	*2004/05* *25%*	*2005/06* *50%*	**Three Year Weighted Average for 2007/08**
Tax Base	*$ Millions*			
Personal Income	*97.9*	*101.8*	*109.8*	**104.8**
Corporate Income	*30.1*	*49.4*	*47.8*	**43.8**
Retail Sales	*43.0*	*45.4*	*46.8*	**45.5**
Natural Resources	*37.4*	*42.2*	*53.4*	**46.7**
Property	*51.8*	*54.4*	*53.0*	**53.1**
Total	*260.1*	*293.2*	*310.8*	**293.9**
Source: Finance Canada, PEI Treasury Calculations				

It is anticipated that Equalization payments for 2008/09 will be calculated in the Fall of 2007 and finalized by the end of the calendar year. This aims to provide greater certainty for provinces when preparing their budgets for the following year.

Federal Funding for Health and Social Programs

Federal transfers to provinces to support health and social programs are principally provided through the Canada Health Transfer (CHT) and the Canada Social Transfer (CST). Formally these two transfers were collectively known as the Canada Health and Social Transfer (CHST) prior to being split in April 2004. These transfers are supplemented by Trust funds that also support heath and social programs. The 2007 federal budget contains measures to improve federal transfers to support provincial health and social programs.

Health Care

The federal budget proposes increased health funding by a total of $612 million over three years, to provinces and territories that commit to patient wait time guarantees. This is in addition to federal funding commitments to reduce wait times as part of the *10-Year Plan to Strengthen Health Care* that was negotiated in the fall of 2004.

The new health funding will provide eligible jurisdictions with a base funding amount of $10 million per province, $4 million per territory and $500 million allocated on an equal per capita basis. The funds will be transferred to provinces through a third party trust arrangement. Eligible provinces and territories will also have access to the additional $400 million in funding to the Canada Health Infoway and $30 million pilot project fund in Health Canada.

On 27 March 2007, Prince Edward Island's Minister of Health, Chester Gillan, and the Federal Minister of Health, Tony Clement, signed a MOU regarding a Radiation Therapy Wait Time Guarantee for Prince Edward Island.

One-time funding is also being provided to provinces and territories to support the launch of a national publicly-funded Human Papillomavirus (HPV) immunization program to protect women and girls from cervical cancer. A total of $300 million over three years beginning in 2007/08 is being allocated for this program and will be provided through a third party trust arrangement. For Prince Edward Island this transfer provides a total $1.26 million to support immunizations.

Total and annual funding amounts of the Patient Wait Times Guarantee and the HPV Immunization Trusts are shown in Table B2.

Table B2.
Notional Allocation of New Federal Funding for Immunization and Patient Wait Times Trusts.

	HPV Immunization		Patient Wait Times Guarantee	
	Canada	PEI	Canada	PEI*
	$ Millions			
2007/08	100	0.422	204	4.037
2008/09	100	0.420	204	4.034
2009/10	100	0.418	204	4.030
Total	300	1.260	612	12.101

Source: Finance Canada

Social Programs

The CST is currently legislated to increase by $300 million to $8.8 billion in 2007/08. The CST will be restructured to provide equal per capita cash to provinces and territories, increased funding for child care spaces and post secondary education and increase federal funding by three per cent annually. The CST legislation will be renewed for a six year period consistent with the CHT.

Beginning in 2007/08 the CST will increase by $687 million to provide Ontario, Alberta and the Northwest Territories the same per capita transfer as other provinces. It is proposed that the CHT will also be restructured to provide provinces and territories equal per capita cash when the existing legislation expires at the end of 2013/14.

Floor payments will ensure that no province or territory experiences declines in either its CST or CHT cash relative to what its cash transfers would have been prior to the implementation of the new Equalization program and the move to equal per capita cash support. Prince Edward Island qualified for $0.5 million in floor payments as a result.

Increased Support for Child Care

The Federal Governments' support for child care is a mix of direct transfers to parents through the Universal Child Care Benefit, transfers to provinces through the CST and is now complemented by a 25 per cent investment tax credit for business that create new child care spaces.

Starting in 2007/08, $250 million per year is provided to provinces and territories to support the creation of new child care spaces. This funding will be added to the CST beginning in 2008/09 with transition funding for 2007/08 is being provided outside the CST.

Post Secondary Education

The CST is scheduled to increase by $800 million per year beginning in 2008/09 with the objective of strengthening the quality and competitiveness of Canada's post-secondary education system.

The combined improvements in federal support for child care and PSE will increase the CST to $10.537 billion in 2008/09. Beginning in 2010/11 the total amount of CST will increase automatically by three per cent per year.

Federal funding for social programs through the CST and PEI's estimated CST revenue is shown in table B3.

Table B3. Canada Social Transfer Including Transitional Child Care Funding in 2007/08.				
	2007/08*	2008/09	2009/10	2010/11
	$ Millions			
CST	8,800	8,800	8,800	8,800
Equal Per Capita Cash	687	687	687	687
Increased support for PSE		800	800	800
Increased support for children	250	250	250	250
Three Percent Escalator			316	642
New CST	9,737	10,537	10,853	11,179
Transfer to PEI	41.12	44.30	45.41	46.78
** Includes transitional support for child care spaces.* *Source: Finance Canada, PEI Treasury Calculations*				

Trust Fund for Clean Air and Climate Change

The Federal Government is committing $1.5 billion, over three years, to help provinces and territories reduce greenhouse gas emissions and air pollutants. This funding will flow through a third party Trust. The funds will be allocated on a per capita basis and will provide a minimum or base funding of $15 million per province and $5 million per Territory. Prince Edward Island and the three territories qualify for the base funding amounts.

Provincial and territorial governments have the flexibility to use this funding in support of their respective needs and priorities, within the lifespan of the trust.

Labour Market Training

The Federal Government proposes to invest $500 million annually beginning in 2008/09 to develop a new labour market strategy with provinces and territories. For PEI, the annual funding is estimated at $2.1 million to support training opportunities to those unable to access training under current Employment Insurance (EI) programs and to encourage employers to provide more training opportunities to their workers. Also, the remaining responsibilities for delivering Labour Market Development Agreements (LMDA) will be transferred to provinces.

Long-Term Funding for Infrastructure

The Federal Government has presented a seven year funding plan for infrastructure as part of their 2007 Budget. Elements of the plan include:

- Each province and territory will receive base funding of $25 million per year to support infrastructure investments. The base funding is particularly beneficial to the smaller jurisdictions which have limited basis infrastructure and lower population densities.

- The Gas Tax Funding is extended by another four years and maintains the base funding allocations for Prince Edward Island and the Territories. PEI receives a targeted allocation of 0.75 per cent of the fund.

- Building Canada Fund is established to support investments in the core national highway system, large-scale projects such as public transit and sewage treatment infrastructure, and small-scale municipal projects such as cultural and recreational facilities. This funding is allocated on a per capita basis.

- Funding to improve the nations gateways, border crossings, transportation corridors and public-private partnership infrastructure investments.

Existing infrastructure funding agreements such as the Municipal Rural Infrastructure Fund and the Canada Strategic Infrastructure Fund will be maintained until expiration.